

FINANCIAL TIMES

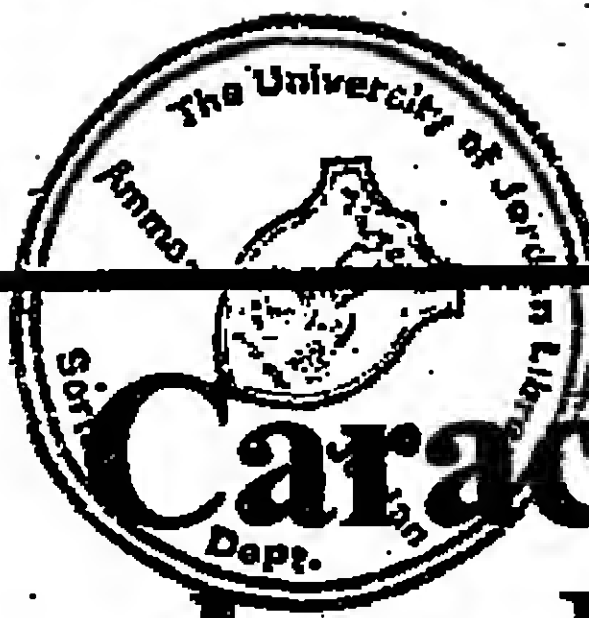
EUROPE'S BUSINESS NEWSPAPER

Tuesday August 30 1983

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New light on
Ambrosiano
and Calvi, Page 13



Caracas, IMF abandon hope of early pact

BY PETER MONTAGNON IN LONDON

VENEZUELA and the International Monetary Fund (IMF) have abandoned efforts to reach an agreement this year on a one-year programme starting early next year. He added that it was still his "firm intention" to reach a rescheduling agreement with commercial bank creditors by December.

The decision seems bound to delay completion of the rescheduling agreement which has been under discussion for nearly six months. Throughout the talks commercial bank creditors have insisted on the adoption of an IMF programme by Venezuela as a key condition of any extension of debt maturities.

But Venezuela, which faces a general election in early December, has balked at the terms sought by the IMF for release of up to \$1.1bn from its Compensatory Financing Facility.

In particular, the Government of President Luis Herrera Campesino has resisted IMF demands for an end to the country's three-tier exchange rate system and an effective devaluation of the Bolivar.

In the free market, the Bolivar currently stands at about 13 to the U.S. dollar.

Confirming the decision to abandon efforts to reach agreement with the IMF before the elections, Sr Arturo Sosa, the country's Finance Minister, said in Caracas: "We are

no longer discussing a 1983 agreement with the IMF and hope to agree on a one-year programme starting early next year."

The advisory committee of commercial bank creditors, which is chaired by Chase Manhattan, will meet today in New York to discuss the latest development. But the meeting will not be attended by any Venezuelan officials and is not surrounded by a major crisis atmosphere because Venezuela's move had been expected for some time.

"It's more of a disappointment than a shock," commented one senior banker yesterday.

At the very least, bank creditors are expected soon to agree to a further extension of Venezuela's current temporary freeze on repayments of principal when it expires at the end of September.

The country's reserves of \$10.5bn are simply insufficient to allow it to repay all its maturing debt.

In return, however, banks are likely to redouble their efforts to persuade Venezuela to eliminate arrears on interest payments. These

U.S. bond prices fall but rate fears recede

By Paul Taylor in New York

U.S. BOND prices fell again in New York yesterday, although there were signs that market concerns about the immediate prospects for short-term U.S. interest rates and Federal Reserve Board monetary policy were abating.

In the credit markets, where a disappointing small \$200m decline in M1, the basic U.S. money supply measure, announced last on Friday, prompted a wave of selling, trading yesterday was said to be considerably calmer and prices recovered some of their early losses.

After falling 1/4 of a point in late trading on Friday, the Treasury long bond was being quoted at around 101 1/2% at the close yesterday, a further decline of about 1/4 of a point.

The price decline yesterday was blamed on a further bout of profit-taking, which has pushed the price of the long bond down from a peak of 104 1/2% on Wednesday of last week. At the current price the long bond is yielding around 11.78 per cent compared to 11.53 per cent in the middle of last week.

Nevertheless, there was a widespread feeling in the markets yesterday that the recent downward correction in bond prices had been overdue.

Most market analysts appear to believe that the Fed's policy-making Open Market Committee, which met last week, probably reaffirmed its current monetary stance. The minutes of the previous FOMC meeting in July, which were published late on Friday, confirmed that the committee authorized a further slight tightening in monetary policy at that meeting.

They also noted that despite the disappointment over the latest figures, the \$200m decline to \$516.9bn leaves M1 only just above the Fed's 5 to 9 per cent target range from the second quarter to the fourth quarter of 1983 and that the two wider money supply measures, M2 and M3, remain comfortably within their targets.

Reflecting this view, short-term U.S. interest rates eased yesterday. With the Fed funds rate at the 9 1/4 level, the Treasury three-month bill rate was around 9 3/4 at the close compared with 9.30 per cent late on Friday.

The easing in short-term rates helped equity prices pull back in New York from earlier sharp falls in the lowest trading volume this year.

Wall Street and other reports, Page 26; U.S. prices, Pages 18-20.

BIS loan respite as debt crunch nears for Brazil

BY OUR FOREIGN AND FINANCIAL STAFF

The Bank for International Settlements (BIS) has moved to help Brazil through its acute balance of payments crisis by announcing that it will not "for the time being" require the country to repay a \$406m loan falling due tomorrow.

As Brazil entered a crucial fortnight in efforts to avert default on its \$90bn foreign debt, the BIS, which together with Saudi Arabia lent the country \$1.45bn in emergency bridging finance last winter, said its decision was based on progress made in negotiations between the International Monetary Fund and the Brazilian authorities and the improved prospects for a resumption of disbursements to Brazil under the IMF's loan programme.

This is the first official comment from any Western monetary authority on the secret negotiations between Brazil and the IMF on the terms of a new economic programme to act as the basis for a multi-billion dollar debt rescue package.

Endorsement by Mr Jacques de Larosiere, managing director of the IMF, of a new programme is now seen as urgently needed by the international banking community, as

it is the only way forward in eliminating some \$2bn in payments arrears accumulated by Brazil. For many U.S. banks, payments are now so late that they are threatened with having to classify loans to the country separately in their balance sheets.

Mr de Larosiere is understood to be still awaiting the formal letter of intent from Brazil on its economic policy plans. Only when this letter is received and endorsed by him can Brazil's request for a resumption of lending go to the IMF's Executive Board, a process that could take several weeks.

Meanwhile, Brazil's commercial bank creditors are to meet again in New York on Thursday as talks continue on a programme to provide new loans of up to \$10bn and reschedule debt falling due next year as part of an elaborate rescue package. Brazil's first efforts to get out of debt difficulty foundered in

May when it failed to meet the stringent IMF economic performance criteria.

Even now bankers fear that a key part of the new programme, designed to cut real wages by 20 per cent by reducing workers' compensation for inflation, may prove unpalatable to Brazilian public opinion.

President Jose Figueiredo, on resuming office last Friday after a heart operation, lent powerful support to the growing number of leading business and political figures calling for a tougher, more nationalist line towards the IMF and the Western banks.

"We shall not accept impositions which imply the abdication of our sovereignty," he said.

Continued on Page 14
Editorial Comment, Page 12;
General Motors do Brazil deal, Page 4

Missile manufacturers bid for UK navy deal

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN LONDON

A MAJOR contest is developing between U.S., British and European arms manufacturers to supply the British navy with advanced new anti-submarine missiles.

The UK Ministry of Defence has asked five companies to submit proposals to supply sea-skimming missiles for deployment on Royal Navy frigates in the late 1980s and early 1990s. The contract could ultimately be worth several hundred million pounds.

The competing companies are British Aerospace Dynamics Group, with a new version of Sea Eagle; the U.S. McDonnell Douglas, with a ship-launched version of Harpoon; Aerospatiale's Exocet; the Franco-Italian combination Oto Melara, which produces the Otomat missile; and a Matra missile.

Mr Michael Heseltine, the Defence Secretary, will face tough political and defence problems as he tries to decide between the rival systems. Many of the issues involved are similar to those raised in the recent controversy over the Royal Air Force's anti-radar missile

which was finally settled by the Cabinet.

The British Alarm system was chosen in preference to the U.S. missile Harpoon at the end of July. The decision factors appear to have been the retention of key technology in the UK, despite the RAF's preference for the U.S. weapon.

Very few details of the rival offers are currently available, though this may change soon, for the companies concerned show signs of waging the sort of public battle for the contract that characterised the Harpoon/Alarm affair.

It seems certain that the U.S. and European companies will offer either offset arrangements or direct involvement for British companies in producing the missiles. But only BAE's missile would be wholly British developed. It is possible too, as with Alarm, that a British solution would bring more employment.

In however, in another direct parallel with the Harpoon/Alarm situation, the British sea-skimming missile has not yet been developed, with its main rivals in production.

The BAE missile, known hitherto only as PST, would be based on its air-launched Sea Eagle, which will probably go into production next year. The Ministry of Defence and BAE signed a £200m (\$300m) contract for the air-launched version 18 months ago.

Of the PST's rivals, the best known is Exocet, which in its air-launched version was responsible for the destruction of at least two British ships in the Falklands conflict. But the U.S. Harpoon, produced in several versions, is in service with the U.S. Navy and has been bought by 13 other navies. The submarine version is deployed with the Royal Navy, which also has Exocet on certain frigates.

Sea-skimming missiles are designed to be launched from frigates or other fighting ships and to hit enemy surface ships. The rival missiles work similarly, in that in the last moments of flight they descend to within a few feet of the sea's surface in an effort to avoid the enemy ship's radar-dependent defences.

Continued on Page 14

Massey-Ferguson cuts first-half loss

BY NICHOLAS HIRST IN TORONTO

MASSEY-FERGUSON, the hard-pressed Toronto-based agricultural equipment manufacturer, which in April agreed on a \$520m rescue package with its lenders, reduced its net loss in the three months to July 31 to \$11.3m compared with a net loss of \$87m in the corresponding quarter last year. Massey reports its results in U.S. dollars.

The improvement was achieved despite a continuing worldwide depression in agricultural machinery sales. Massey's sales for the quarter were down 23 per cent at \$401m; farm and industrial machinery sales fell 20 per cent to \$338m, while sales of Perkins diesel engines slumped 34 per cent to \$63m. The Perkins diesel division, however, operated at better than break-even levels.

The net loss for the first six months was \$29.2m - compared with \$112.7m in the comparable period of 1982 - based on a 25 per cent reduction in sales to U.S.\$804m.

Mr Victor Rice, the group's chairman and chief executive, said the company could still not predict with any certainty when recovery in its major markets would come, but it saw signs which might lead to a pick-up in 1984. Efforts to pare back costs were having their desired effect.

"Quite clearly, we are now seeing increased benefits from the actions we have taken to reduce our cost structure to a level appropriate to the low industry sales," Mr Rice said.

While industry sales continued to decline during the six months, Massey claimed an increase in its retail market share of both tractors and combine harvesters in all its main markets.

At July 31, the group's total assets were \$1.7bn, down from \$2.3bn a year before. Long-term debt had shrunk from U.S.\$1.1bn to \$672.6m.

Olivetti sales show 12% rise

By Rupert Cornwell in Rome

OLIVETTI, the leading Italian electronics and office equipment manufacturer, yesterday reported a rise in first-half sales of 12 per cent at group level to L1,638bn (\$1,041m). The parent company's net revenue climbed 19 per cent to L861bn.

The group also announced that Sig Carlo de Benedetti, chief executive and deputy chairman, is stepping up to replace Sig Bruno Visentini as chairman of the board. He will retain his other positions. Sig Visentini yesterday resigned as both chairman and director following his appointment as Finance Minister in the new Italian Government.

The figures show a further increase in operating margins during the first half, Olivetti said. The parent company's new orders from the Italian market in the first half, including those for leased products, amounted to L817.4bn.

Marines killed in Beirut fighting

BY NORA BOUSTANY IN BEIRUT

TWO U.S. Marines were killed and seven injured when fierce gunbattles between the Lebanese army and Muslim Shiite militias engulfed Beirut airport yesterday.

The Marines retaliated with shellfire and a rocket from a helicopter gunship to stop the fighting, the worst battles in Beirut since the Israeli invasion last year.

Mr Amin Gemayel, the Lebanese President, ordered the army to suspend operations amid fears that Lebanon could be on the brink of a return to all-out civil war.

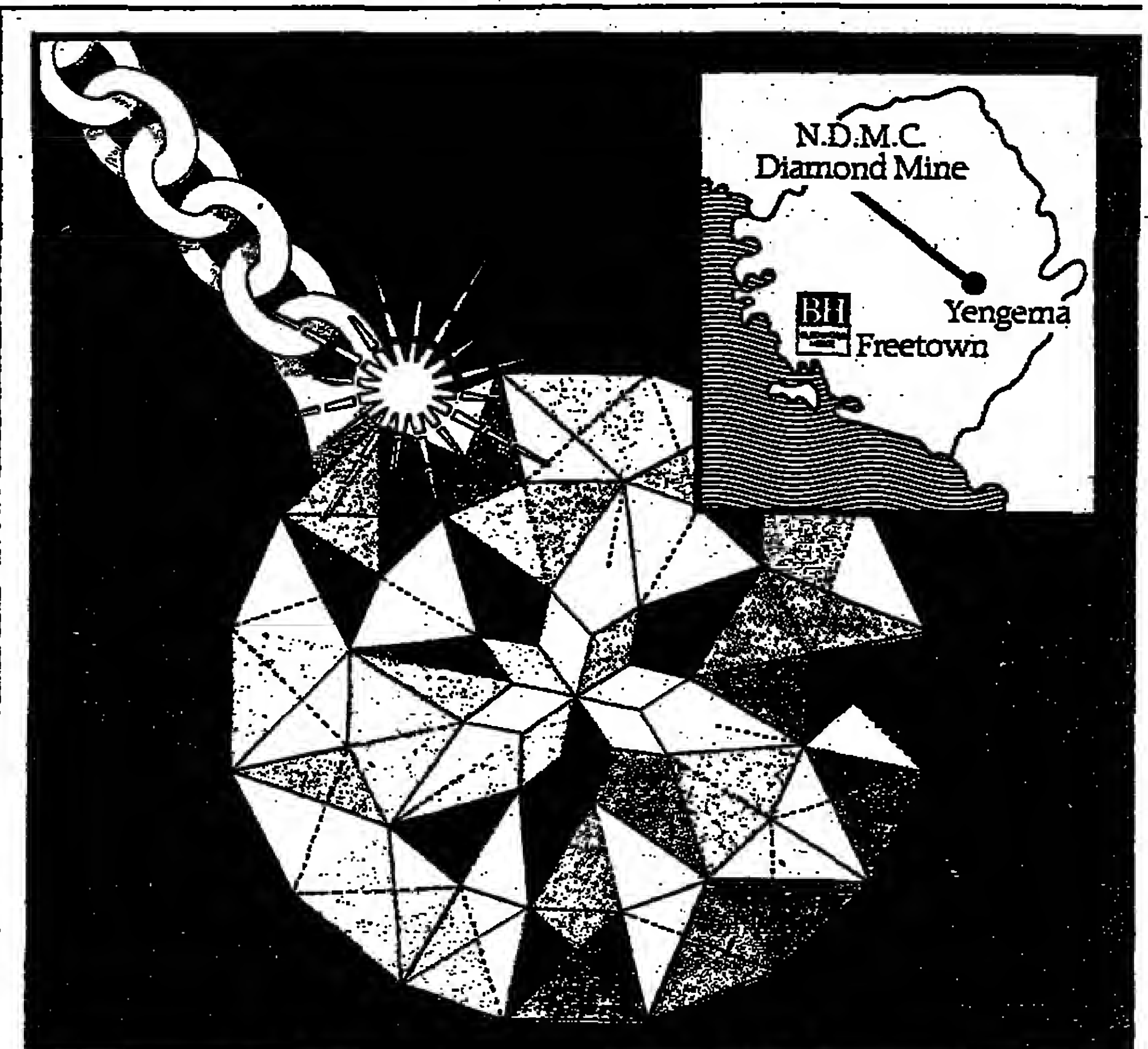
At least 20 people, including three Lebanese soldiers were killed in the fighting and more than 80 wounded. One Italian soldier in the peace-keeping force was also wounded.

As the battle-weary capital rebounded to the noise of mortars and gunfire, 200 Shiite militiamen took

over a state television station, demanding that their views be aired. Television screens broadcast a picture of the Shiite militia founder, Imam Musa Sadr, who disappeared five years ago.

As traffic in West Beirut slowed to a trickle, Shiite militiamen in hoods and masks, accompanied by Druse fighters from the Progressive Socialist Party, set up checkpoints in mainly Muslim neighbourhoods and blocked the only crossings into the eastern, Christian half of the capital. Long queues formed for bread and petrol.

Despite the Government call to halt military operations, sniping and skirmishes continued and attacks were reported against army positions. Shells landed in East Beirut and hospitals in both sectors issued appeals for blood donations.



Blackwood Hodge helping Sierra Leone export diamonds

Equipment supplied and serviced by Blackwood Hodge Freetown includes: TEREX TS 14 Scrapers - R25 (25 ton) Rear Dumps - R35 (35 ton) Rear Dumps 82-30 and 82-40 Crawler Tractors and CHAMPION model 720 Motor Graders.

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Greece	... Dr 50	Norway	... Nkr 6.00	Turkey	... Liras 1.60
Hong Kong	... H\$ 12	Philippines	... P 20	U.S.A.	... \$1.50
India	... Rupee 15	Spain	... Ptas 165		

NEWS SUMMARY

GENERAL BUSINESS

Coalition presses Begin to stay

Israeli Prime Minister Mr Menachem Begin's supporters were pessimistic last night that they would succeed in persuading him to stay at his post.

At a Cabinet meeting on Sunday Mr Begin, who has been Prime Minister since 1977, said he planned to resign, but after meeting leaders of parties which are members of his governing coalition he agreed yesterday to delay his decision until this morning, Page 14

Hostages ordeal

Seventeen hostages faced a third night on their hijacked aircraft at Tehran airport last night as talks continued between the Iranian Foreign Ministry and the Lebanese hijackers who have threatened to blow the aircraft up tonight unless France stops military aid to Lebanon, Chad and Iraq.

EEC ministers meet

Thirty senior European Economic Community ministers start intensive negotiations in Brussels today aimed at saving the community from bankruptcy, Page 14

Leakage leak

Sir Robert Armstrong, the British Cabinet Secretary, is urging senior civil servants to take action to prevent further leaks of confidential government documents, according to a leaked copy of his letter, Page 6

OECD post

Prof David Henderson of University College, London, is expected to take over the sensitive job as head of economics and statistics at the Organisation for Economic Co-operation and Development, Page 14

Pakistani injuries

At least 26 people were injured when a hand grenade was thrown into a crowd gathered for an opposition demonstration in a working class suburb of Karachi. Four Bhutto family members held, Page 3

Chilean progress

General Pinochet's regime has lifted the state of emergency in effect in Chile since the 1973 military coup, Page 2

Arms offer reaction

West Germany said it was "unacceptable" that no new U.S. weapons should be deployed in Europe in return for only a reduction offered by Soviet leader Mr Yuri Andropov, Page 2

Polish unions 'boost'

Polish authorities are using the third anniversary of the start of Solidarity as an occasion to promote unions established to replace the banned movement after the military takeover.

Nuclear criticism

Leaders of Pacific countries meeting in Canberra called on France to stop nuclear testing and speed introduction for the French island of New Caledonia.

High crop seized

Police in the Irish Republic confiscated nearly 700 cannabis plants growing in a mountainside forest clearing near Gort, County Galway.

Briefly ...

Pakistan's president Zia arrived in Turkey for a six-day official visit.
Christina Onassis, the shipping heiress was questioned by customs officials for three hours before being allowed to leave Greece.
Soviet violinist Boris Karsakov was found dead in his hotel room after a concert in Gijon, northern Spain.

Honda to cut back sales target

● HONDA MOTOR, the world's largest motorcycle maker, is to cut its sales target 19.5 per cent to 3.1m units for the year to the end of February 1984, Page 16

● DOLLAR stayed firm on European exchanges after a surge in New York on Friday prompted by news of a smaller than expected fall in the U.S. money supply. It was fixed in Frankfurt at DM 2.6903, below the New York close of DM 2.688, but two pence above Friday's fix of DM 2.658, Page 26

● WALL STREET: Dow Jones index closed 2.04 up at 1194.11, Page 26. Full share listings, Pages 18-20

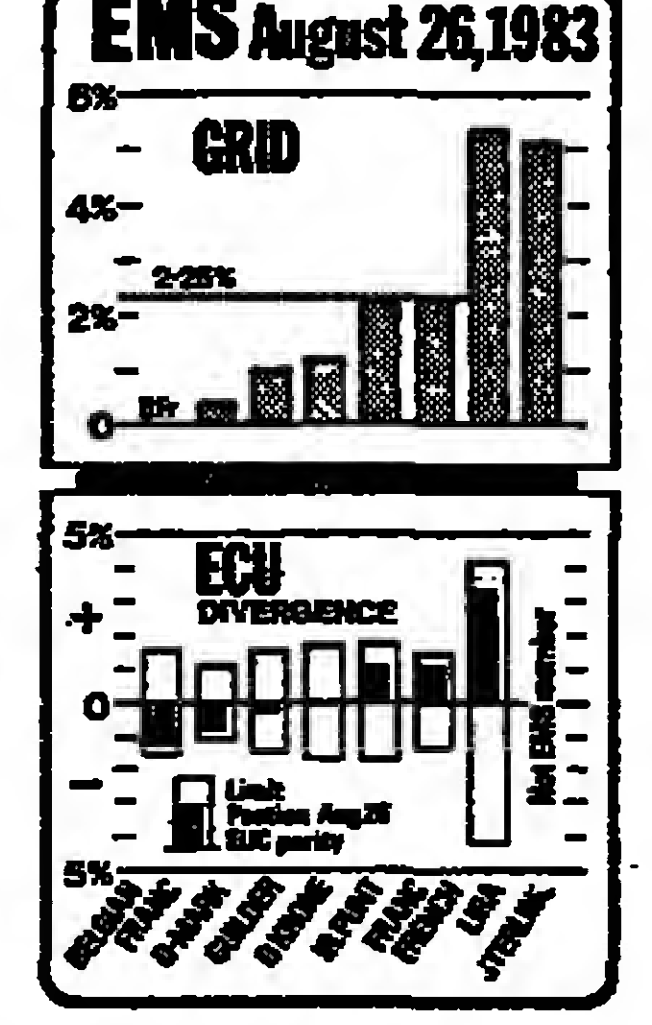
● TOKYO: The Nikkei Dow index was up at 9172.54 (9145.54). The Stock Exchange index was 677.9 (677.69). Report and leading prices, Page 26

● GOLD September Comex settlement in New York was \$417.50 (\$419.80).

● LONDON was closed for a public holiday.

● THE BELGIAN franc has been under pressure in the European Monetary System recently, requiring

EMS August 26, 1983



ing support against the Irish punt. The Belgian National Bank reported sales of the equivalent of Bfr 1.9bn in dollars in the previous week as the franc touched its floor against the punt, but by the end of last week the French franc had replaced the punt as the strongest currency within normal trading bands, although the lira remained the strongest unit overall. Movements within the EMS were fairly limited, however, by the foreign exchanges' concentration on the dollar, which did not fall sharply against the D-Mark despite better U.S. M1 money supply figures.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2 1/2 per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● U.S. trade deficit widened to \$6.36bn in July from \$4.98bn in June, putting it on target for record \$70bn for year against previous peak of \$42.7bn in 1982.

● WEST GERMANY annual rate of consumer price inflation rose to 3 per cent in the month to mid-August from 2.5 per cent the previous month.

● EXCLUSIVE FISHING zone 12 miles off the Dutch coast will come into force on October 1, implementing a European community fishery ministers' decision earlier this year.

FT Surveys

● A full list of FT surveys to be published to the end of the year appears on Page IX of the West German Banking survey in Section III today.

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OVERSEAS NEWS

Bonn sees Soviet offer as step in right direction

By Jonathan Carr in Bonn

WEST GERMANY has firmly rejected one key element of the latest nuclear arms control offer made by Mr Yuri Andropov, the Soviet leader. But Bonn feels some parts of the plan, which could entail the scrapping of some Soviet missiles, marking a step in the right direction.

The Government spokesman yesterday gave an unusually detailed reaction to Mr Andropov's offer, which comes shortly before resumption of Soviet-U.S. arms negotiations in Geneva.

The spokesman said it was "unacceptable" that no new U.S. weapons—Pershing 2 and cruise missiles—be deployed in Europe in return for only a cutback on the Soviet side.

He noted that this was what one part of the Andropov plan amounted to. The Soviet leader had pledged Moscow would cut the number of its intermediate-range nuclear weapons in Europe to a level matching that of the British and French nuclear forces. But the U.S. would have to give up its deployment plans.

The spokesman emphasised the West's view that the British

and French systems, mainly submarine-based, were not directly comparable to Soviet missiles like the 22-20, each with three nuclear warheads.

Moreover, the British and French weaponry was under national control and could not be taken as a substitute for U.S. missiles, deployed in Europe by joint NATO decision.

On the positive side, Bonn welcomed Moscow's readiness to achieve "a real reduction" in missiles by destroying some.

Bonn also took Mr Andropov's statement as a sign that the Soviet Union was at last ready to admit its superiority in the intermediate-range nuclear field. So far, it had sought to claim there was rough parity.

Last Friday, Chancellor Helmut Kohl said he felt there was still a chance of accord this autumn at the Geneva negotiations which resume next week. But he warned that Bonn would go ahead with deployment of U.S. missiles from the end of the year if talks failed.

The first of 108 Pershing 2 missiles are due for deployment in West Germany in December while the UK is to take the first of 464 Cruise missiles in the same month.

Arabs warn Kohl on Israel visit

ARAB STATES have issued a sharp warning to Chancellor Helmut Kohl of West Germany who is due to start an official visit to Israel tomorrow.

In a joint declaration yesterday, Arab ambassadors here said they would watch the trip carefully. They hoped it would not upset Arab-German ties.

The ambassadors made clear they would treat any fulfilment by Bonn of financial demands by Tel Aviv as "support for Israel's policy of occupation, aggression and expansion against the Arabs."

The statement claimed that Israel had followed a "policy of blackmail" towards Bonn based on a German guilt complex.

But this policy could no longer be accepted, "since Israel continually uses methods similar to those of the Nazis against the Arab population in the occupied territories," the ambassadors said.

The declaration was issued amid uncertainty about whether Herr Kohl's visit, the first by a Bonn Government leader to Israel for a decade, would in fact go ahead.

Preparations have long been underway but plans were thrown into confusion by the weekend announcement of the Israeli Prime Minister, Mr Menachem Begin, that he wanted to resign.

The mounting problems that are prompting Begin to step down

By Patrick Cockburn in Jerusalem

THE VIGOUR with which members of Mr Menachem Begin's Government and party are pressing him to remain Prime Minister is a measure of the primacy he has established within both since he came to power in 1977.

Mr Begin has always liked drama and surprise, and the timing of his announcement of his impending resignation had both. Cabinet colleagues who were sniping at him up to last week are aghast at the immensity of his departure.

His decision is unlikely to be simply a way of concentrating his Government's mind and dishing his enemies.

Leaving aside the death of his wife, old age and exhaustion, Mr Begin has several good reasons for stepping aside now. The inconclusive and messy consequences of Israel's invasion of Lebanon are far different from his hopes. Polls show that a sizeable majority of Israelis consider it a mistake ever to have advanced as far as Beirut.

Keeping an army in Lebanon is a financial drain and reserve duty is unpopular, all the more so because of the steady trickle of casualties. The number of dead now total 518 and even a withdrawal to better positions along the Awar River north of Sidon will not end guerrilla

attacks. The Israeli-Lebanese agreement signed last May is still a dead letter, since the Syrians refuse to withdraw.

However, it is domestic affairs as much as the Lebanese invasion which has weakened the credibility of Mr Begin and his Government. The state of the economy grows worse by the month and the cabinet has found it difficult to agree on

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The state of the economy grows worse by the month and a divided cabinet has found it hard to agree on cuts.

The cuts to be made. Mr Begin's resignation may make these even more difficult to carry out and the Treasury is worried about the fate of the new economic policy.

The social and political consequences of the failure of Mr Yoram Aridor, the Finance Minister, to stem the decline in the economy was symbolised by the prolonged doctors' strike earlier this year. The Govern-



Mr Begin... the choice of a successor as Prime Minister is a narrow one.

field is narrower than seemed likely a year ago. Mr Ariel Sharon, the former Defence Minister, has not recovered from the effect of his condemnation by the official report on the Chatila massacre. The state of the economy seems to rule out Mr Aridor, while Mr Moshe Arens, the Defence Minister, is not in Parliament and cannot, therefore, become Prime Minister.

Mr David Levy, the Deputy Premier and Housing Minister, and Mr Yitzhak Shamir, the Foreign Minister, are the most serious candidates. Both are somewhat lacklustre figures compared with Mr Begin or Mr Sharon. But, after the events of the past year, they may be what most Israelis want.

Machine-tool orders up 19% in U.S.

By Paul Taylor in New York

U.S. MANUFACTURERS are starting to order more equipment, providing further evidence of the economic recovery and a much needed boost for the extremely depressed machine-tool industry.

Such orders increased by 19 per cent in July to \$173.4m (\$115m) from June and were 63 per cent higher than the very low level in July last year, according to figures from the National Machine Tool Builders' Association.

Machine tool orders are a sensitive and closely watched barometer of economic activity and July is usually a weak month because factories close for holidays.

Mr James Gray, the association's president said: "We are encouraged that an order recovery seems to be under way." However, he pointed out that \$170m in monthly orders is still only "about half what we need for a healthy industry."

Export orders, moreover, continue to be depressed and shipments in July were the lowest for more than 10 years. They fell to \$106.6m down 56 per cent on a year ago and 40 per cent below the June level. The industry's order backlog at the end of July was \$1.01bn, a 45 per cent decline over July 1982, but almost higher than the \$850.5m at the end of June.

Sharp attack on Reagan peace plan

GENEVA — A controversial UN conference on Palestinian rights, boycotted by the U.S. and Israel, opened here yesterday with a sharp attack on the Reagan peace plan by Mr Yasser Arafat, chairman of the Palestine Liberation Organisation.

In a message read by a Palestinian delegate, Mr Arafat, who is not present, said Mr Reagan's initiative "complicated the problem still further and undermined the cause of peace."

He said Washington backed Israeli aggression and occupation of Arab lands "in defiance of General Assembly resolutions."

The conference, with delegates from 120 countries, was inaugurated by Mr Javier Perez de Cuellar, the UN Secretary General. Washington said that the world body was exploited for an "ill-considered purpose which does nothing for the cause of peace or indeed the Palestinian people."

The conference's purpose was to provide political benefits to the PLO, furnish it with a platform for one-sided judgments about the Arab-Israeli controversy, the U.S. statement said.

Two days ago, Mr Reagan said his year-old plan calling for Israeli withdrawal from occupied Arab land, coupled with the creation of a Palestinian entity associated with Jordan, was "the only realistic basis for a solution" in the Middle East.

Israel said earlier the 10-day meeting would be an exercise in futility and the \$6m it will cost the UN would be money squandered.

Much of Geneva was turned into an armed camp for the conference. While helicopters swooped overhead, Swiss troops manned sandbagged machine-gun emplacements around the Palais des Nations, the UN's European headquarters and site of the conference.

The building was defended by armoured personnel carriers and three miles of barbed wire.

At Geneva airport, military vehicles are stationed along the runway and soldiers with submachine guns watch the airline parking area. Reuter.

AT&T workers end strike

By William Hall in New York

THE FIRST nationwide telephone strike in the U.S. for 12 years ended yesterday as the 625,000 workforce of American Telephone and Telegraph (AT&T) went back to work after 24 days.

The three unions involved—the 500,000-strong Communications Workers of America (CWA), the International Brotherhood of Electrical Workers and the Telecommunications Union—agreed a three-year national settlement just over a week ago but a return-to-work was delayed until the 34 bargaining units had settled several subsidiary local contract issues.

Members still have to ratify the contract before October 8 but union leaders expect no difficulty.

The strike came at a difficult time for AT&T, which plans to sell its operating telephone companies in January. The question of job security stood at the break-up of the Bell Telephone System, as it is known, was high on the union agenda.

The settlement will increase wages by an average 16.4 per cent over the life of the contract and cost an estimated \$9bn (\$2bn).

The public was little affected by the stoppage since most calls are made by automatic dialling.

Pinochet ends emergency rule

By Mary Helen Spooner in Santiago

GENERAL Augusto Pinochet's regime has lifted a state of emergency in effect in Chile since the 1973 military coup. The move follows last week's meeting between the regime's new civilian Interior Minister, Sr Sergio Jara, and five opposition leaders, who had listed the end of the state of emergency among their demands.

The most noticeable effect of the regime's decision has been the ending of the nightly curfew imposed by military authorities. The curfew restricted movement by vehicles from 2 am to 5.30 am on week-day nights.

The Pinochet regime has also authorised the return of over 2,000 Chilean exiles over the past fortnight, including former officials of the late socialist President, Sr Salvador Allende's government.

Spain counts costs of severe floods in Bilbao

By David White in Madrid

AUTHORITIES in the heavily-populated Bilbao region yesterday began to count the cost to industrial stocks, personal property and communications after catastrophic floods which have claimed at least 37 lives.

The floods, caused by torrential rains along the northern coast of Spain and the south-west corner of France, hit much of the Basque country, part of Cantabria and the north of Burgos province, inundating the centre of Bilbao and cutting off villages.

Some 2,500 members of the armed forces have been mobilised since Friday to combat acute local shortages of food, drinking water and electricity, and prevent shops from being looted.

King Juan Carlos and Prime Minister Felipe Gonzalez both visited the flood region during the weekend.

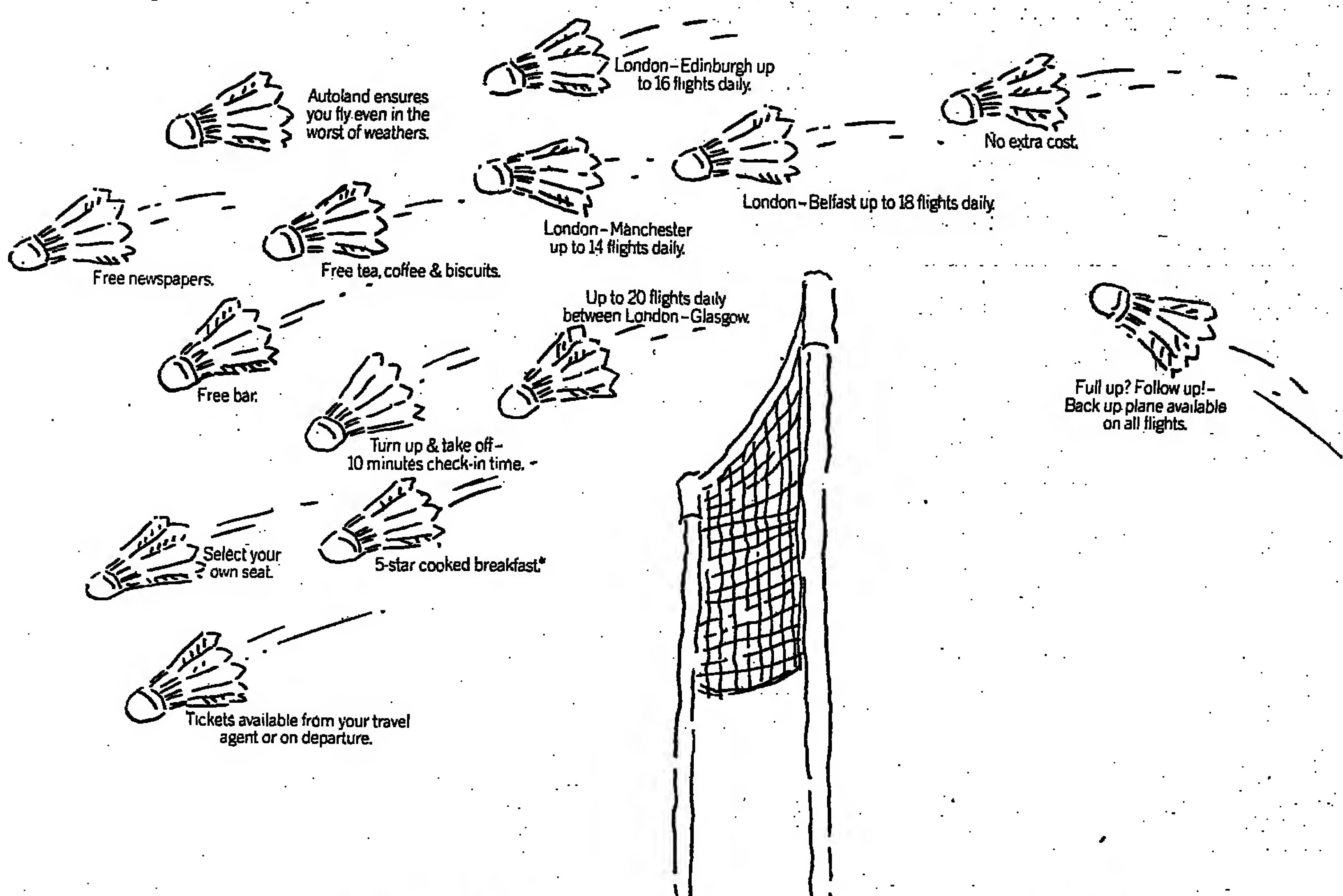
The cabinet is due tomorrow to consider a request from the government's chief representa-

tives in the Basque country to declare a disaster area in the whole of Vizcaya province, where Bilbao is situated, and several valleys of neighbouring Alava and Guipuzcoa provinces.

As clean-up and reconstruction work started yesterday, the damage to stocks alone—including steel awaiting shipment at Altos Hornos de Vizcaya—was estimated at several hundred million dollars.

Ironically, the downpours in the north and in Catalonia and Mallorca have come as much of Spain is suffering from a prolonged drought, after three years during which reservoir levels have been progressively run down.

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OVERSEAS NEWS

Concern grows over Philippines debt in wake of killing

By Emilia Tagaza in Manila

THE ASSASSINATION of Mr. Benigno Aquino, the Philippines leading opposition leader, has sent nervous chills through the banking community in the Philippines.

The mysterious circumstances surrounding the slaying, and widespread speculation about President Ferdinand Marcos' health, have heightened political uncertainty in the country; foreign bankers are seriously concerned with their exposure to the prospect of a rescheduling of the country's debt loans.

Economic officials have been hard pressed to reduce the chronic balance of payments deficit, which they hoped to cut to \$500m this year from last year's record \$1.1bn.

Some bankers are understood to have advised their parent companies to put the Philippines into a higher risk category, others have recommended a freeze on new lending.

The major anxiety now is how firmly the President in control of events. This has been fuelled by speculation on his health. After Mr. Aquino's death Mr. Marcos, with his wife and full cabinet, went on live television, but both local and foreign viewers were stunned by his weak physical appearance.

Mr. Marcos is understood to be suffering a kidney ailment. Some banks are appealing for calm. One American banker said it would be unwise for banks to freeze new loans precisely at this time. If no fresh funds were injected to refinance maturing loans, the Philippines could be forced to re-schedule.

Singapore gold firms face closure

By Chris Sherwell in Singapore

A NUMBER of Singapore's gold trading companies may have to close following a lengthy official investigation into their business practices.

Closure is believed to have been urged by the Singapore Law Ministry, as a result of inquiries concerning 24 firms, trading in both commodities and gold. At least two of them are either full or associate members of the Gold Exchange of Singapore.

The investigations followed complaints from several clients last year which led to police raids and seizure of documents. The outcome is important because, in the view of the Singapore authorities, the scandal drew attention to the free wheeling nature of gold trading and put at stake the city state's reputation as a safe and reliable gold trading centre.

It remains unclear exactly how many companies face liquidation. Investigators are believed to have found at least five companies to be insolvent and another dozen trading at a loss. More were said to be indulging in questionable trading practices.

Mr. Ken Wee, deputy Premier and chairman of the Monetary Authority of Singapore (MAS) has said he wants all gold traders to join the exchange. But the Government prefers self-regulation under MAS supervision, rather than direct regulation legislation, and the exchange has proposed amendments to its trading rules.

Chad rebels call for reconciliation

The Libyan-backed rebels in northern Chad called for a "sincere and definite reconciliation" of all Chadians yesterday, including French-backed President Hissene Habre, AB reports from N'Djamena.

The rebel Radio in Bardai on the Libyan border, broadcast a communiqué of the rebel regime, ostensibly led by former President Goukouni Oueddei. It was the rebels' first formal response to a policy statement issued last week by President Francois Mitterrand of France, outlining the mission and objectives of the French task force in Chad.

Four Bhutto family members held

By Muhammad Aftab in Islamabad

PRESIDENT Zia ul-Haq of Pakistan yesterday rejected demands to hold collective discussions with opposition political leaders to find a solution to problems facing the country. His declaration came a day after police arrested four members of the family of executed former Prime Minister Zulfikar Ali Bhutto in the southern province of Sind.

In his first comment on the civil disobedience campaign launched by an eight-party opposition alliance on August 14, President Zia said: "I do not plan to hold a collective meeting with politicians because it will not promote unity." He said, however, that he would meet politicians individually.

Gen Zia alleged that the recent violence had been

instigated by "vested interests and foreign masters." He did not elaborate on who the "foreign masters" were.

He said the violence "indulged in by a handful of elements in some parts of Sind province" had sharply declined over the last few days. The agitation has claimed 31 lives, mostly through police shooting of demonstrators.

The arrest of the Bhutto family members came hours before a major anti-Government opposition rally was to have been staged at the late leader's graveside.

Mr. Mushtaq Ali Bhutto, a cousin of the former premier, was among the four. Names of the others were not immediately available.

The opposition parties had

declared on Friday that they would stage a rally at Mr. Bhutto's grave, as part of the campaign against the Government.

The parties constitute the Movement for Restoration of Democracy (MRD), which demands the country's return to democracy. It also seeks immediate parliamentary elections, restoration of human rights and revival of the 1973 constitution, which the Pakistani nation had unanimously adopted.

Eleven opposition supporters were also arrested on Sunday at Naudero, near Larkana, Mr. Bhutto's home town, 225 miles north of Karachi. Mr. Bhutto was hanged in April, 1979, on a conspiracy-murder charge.

His grave is located at Naudero.

The police crackdown on the Bhutto family and the opposition in Larkana and Naudero was to prevent the rally from taking place.

The civil disobedience campaign coincided with a new political framework announced by Gen Zia on August 12, pledging parliamentary elections in 18 months' time, and a gradual withdrawal of martial law. The opposition has rejected the plan.

Gen Zia said the political leaders should have studied his election programme and given their comments on it. They should have discussed all its aspects and given their critical appreciation, but this was not done, he said.

Sri Lankan tensions flare again

Fresh ethnic violence erupted in eastern Sri Lanka at the weekend as political talks were held in Colombo aimed at defusing tension between majority Sinhalese and the Tamil minority, Reuter reports from Colombo.

Mr. Douglas Liyanage, the Government spokesman, said attackers from the two groups set houses ablaze and damaged fishing boats in the east coast district of Batticaloa.

In the capital, talks were spurred by the arrival of a special envoy of Indian Prime Minister Mrs. Indira Gandhi, who offered to help find solutions to the ethnic problem that flared into violent riots last month. Mr. Liyanage said the new violence appeared to be a reaction to the failure of a strike called last week to protest at the killing of 52 Tamil prisoners in a Colombo jail during the riots.

Violent clashes at uranium site in Australia

By Michael Thompson-Noel in Sydney

ANTI-NUCLEAR demonstrators yesterday clashed with police at Roxby Downs, South Australia, site of the huge Olympic Dam copper-gold-uranium-silver discovery. Some 400 protesters were involved in violent scuffles with 250 police after forcing their way past guarded barricades on an access road near the Whentana exploration shaft.

Olympic Dam, one of the world's largest known mineral deposits, is thought to contain at least 1.2m tonnes of uranium oxide.

Yesterday's violence was the first at the mine site and dramatizes the growing opposition in Australia to the mining and export of uranium, of which the

country has the world's largest reserves.

It also underlines the dilemma facing the Australian Labor Party Government in Canberra. Although official party policy demands a "total unequivocal commitment to phase out Australia's involvement in the uranium industry," it also states that a Labor Government would be empowered to "consider applications for the export of uranium mined incidentally to the mining of other minerals," as at Olympic Dam.

Production at Olympic Dam is unlikely before 1990, but site evaluation and feasibility studies are well advanced. The partners are Western Mining Corporation (51 per cent) and

BP Australia (49 per cent). The development cost is estimated at A\$1.7bn (\$1bn).

Opponents of the uranium mining include the Labor Party's left wing, conservationists, and aboriginal land rights activists.

Yesterday, Senator Don Chipp, leader of the Australian Democrats, bitterly criticised the Government for having "gone back on its word" on uranium mining. He said the Government had allowed two companies (Energy Resources of Australia and Queensland Mines) to negotiate fresh export contracts, was condoning development of Olympic Dam, which had enough uranium to supply the world for 40 years;

and was planning to sell more uranium to France, despite the continuation of French nuclear testing in the South Pacific.

A Government task force is studying the uranium issue, although Mr. Bob Hawke, the Prime Minister, has made it clear he will not be intimidated by his party's left wing.

Australia has almost a quarter of the West's uranium recoverable at below U.S.\$50 per pound. Last year it exported 5,277 tonnes of uranium ores and concentrates, worth A\$415m, against 1,625 tonnes, worth A\$120m, in 1981.

At Roxby Downs last night, police, miners and demonstrators were still confronting one another.

Thousands of Sikhs storm Punjab offices

Thousands of Sikhs, brandishing swords, spears and daggers, stormed government offices in the Punjab yesterday to press demands for greater autonomy, Reuter reports from Chandigarh.

Police and paramilitary forces fired tear gas and plastic bullets at the demonstrators, who broke through barred wire barricades and smashed furniture, broke windows and destroyed files inside the offices.

About 70 people were reported injured in the clashes which have erupted during a campaign by the Sikhs and their political party, the Akali Dal, for political and religious concessions.

Strike brings Assam to halt for 36 hours

Shops and offices closed yesterday throughout India's troubled north-eastern state of Assam and cars kept off the streets at the start of a 36-hour strike called by Hindu militants, Reuter reports from New Delhi.

The strike was called by mostly Hindu Assamese militants who want immigrants deported from the state. It was the most serious challenge to the Government since widespread violence in February and March when 3,000 people died and more than 300,000 were made homeless during elections there.

Shagari set for new victory

LAGOS—The dominant National Party of Nigeria staged out a clear early lead in returns from Saturday's elections for Federal representatives, taking 48 of the first 90 seats declared. Judging from the initial returns, the government-operated New Nigeria newspaper said the National Party "appears to be heading for another landslide win," because it was demonstrating strength in most areas of the country.

The party, led by President Shagari, scored sweeping victories over the five opposition parties in three previous general elections this month. Shagari was returned to a second and under the Nigerian Constitution—final 4-year term by more than 4m votes. The party also won 13 of 19 state governorships, and, subsequently, 35 of 35 contested Senate seats.

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Flawless concert reproduction is now within reach.

The DA-800 is here. A compact disc digital audio player from a leader in the field, Hitachi.

The DA-800 utilizes an ultra-fine laser beam that "reads" compact discs (CDs)—achieving performance levels that far outpace even the finest analogue turntable.

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With the DA-800, fantasy abounds. Simply sit back in your favourite chair and close your eyes. You will feel as though you are a part of the original performance, surrounded by every nuance of crisp, clear sound.

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You're going to love what we've taken away.

Best of all, there is nothing hidden within the sound to spoil this illusion. Analogue recording glitches such as feedback, pops, ticks, rumble, and scratches have been totally eliminated.

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A born performer.

The marvels of the DA-800 are not

limited to flawless sound reproduction. They also offer a whole new world of playback flexibility through a wide range of programming options.

Program up to 15 selections in any sequence.

Repeat your favourites. Eliminate the ones that aren't.

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And it even looks as good as it sounds.

The DA-800's black finish provides a professional look, and its component format allows it to stack uniformly with the rest of your system.

Its horizontal front

loading system glides open and shut with the simple touch of a button.

Built by a leader in technology.

The technology that makes the DA-800's revolutionary performance possible is provided by Hitachi's massive

research and development effort. Hitachi's expertise in opto-electronics and mechanical-electronics, as well as advanced semiconductor technology, has resulted in more than 140 patents and patents pending, affecting all areas of the CD reproduction process.

Hitachi displayed prototype versions in audio fairs as far back as 1977. They also produced one of the world's first commercially available CD players, the DA-1000.

Sounds too good to be true.

Words cannot accurately describe

this remarkable experience. You're simply going to have to listen and judge for yourself.

Do it soon. But hold your applause until the end. You won't want to miss a single note.

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WORLD TRADE NEWS

Turkish port delays hit shipments for Iran and Iraq

BY OUR ANKARA CORRESPONDENT

SHIPERS in Turkish ports on the Black Sea and the Mediterranean are reporting delays of up to two weeks before being allowed to berth and discharge their cargoes.

According to one Turkish shipper, congestion has resulted "in the inability of Turkey's ports to cope with the flow of trade to Iraq and Iran which are now largely being provisioned through Turkey."

Transport companies say that recent changes in freight regulations by the Turkish Ministry of Communications have exacerbated difficulties, normally attributable to bureaucracy, poor infrastructure, and faulty equipment. Crude equipment in the Black Sea port of Hopa is said to be inadequate to meet demands being placed on it.

Mr. Asaf Güneri, the head of Zim Taurus, estimates that a minimum of 1m tonnes of cargo is currently being held up in Turkish ports because of slow handling. Other companies confirmed this assessment and say that delays are hurting them badly.

Freight companies have been

taken by surprise by increased charges introduced by the Turkish Transport Ministry in April. These began at the low level of 10 cents per ton per day, but rose on a retrospective monthly basis. "Foreign companies are paying an average of \$10-\$15 per ton because their goods are being kept in storage for more than a month," says a freight official in Trabzon. "This makes Turkey very unattractive to many of them and I believe that some are already looking for alternative routes to supply both Iran and Iraq."

Shortages of trucks are largely responsible for the delays on land. TIR transits have swollen from 10,000 in 1972 to nearly 250,000 last year. Turkey's limited trucking facilities mean that at Trabzon on the Black Sea, only 100 trucks per day are loaded and a similar number at Hopa.

The problem is expected to get much worse after October 1 when new regulations come into force which prohibit companies with truck load capacity of less than 200 tons from collecting marine freight.

Tanker rates show an overall improvement

FINANCIAL TIMES REPORTER

TANKER RATES improved last week in all areas of trading except the Middle East where there has been little or no inquiry for large size vessels and there is considerable tonnage in position.

Indonesia has been extremely active, with numerous fixtures concluded at higher rates for voyages to South Korea, Thailand and the East and West coasts of the U.S. A 130,000 ton carrier was fixed to the U.S. west coast at Worldscale 471, well above the low 30s prevailing not long ago.

Similarly, a much increased demand has enabled owners to improve the rate structure out of West Africa. A 250,000 ton cargo moving to the U.S. Gulf obtained in excess of Worldscale 30.

The Mediterranean market has turned up too, with a

90,000 tonner being fixed from Arzew to Rotterdam at Worldscale 60.

A few modest stirrings have been reported in dry cargo markets as well, notably in the Lakes and in Australia, but the weight of laid-up tonnage and the amount of new building underway will continue to restrain any real recovery, Denholm Coates says.

The Soviet Union's commitment to move a minimum of 9m tons of grain from the U.S. over the next five years is helpful, but owners are still looking for signs of a much needed improvement in steel production.

In the second half shipping markets, China continues to acquire handysize bulkcarrier tonnage, having bought last week the 26,743 dwt Korean-owned, 1979-built Sammi Crystal for about \$8.3m.

Bob King in Taipei assesses the outlook for Taiwan's colour television exporters

Industry euphoria clouded by U.S. threat

TAIWAN'S COLOUR television exports are on the road to recovery after an extremely sluggish 1982, when shipments of finished sets and kits dipped 23 per cent from the previous year's level to \$133m.

But manufacturers' euphoria has been dimmed considerably by charges of dumping in the U.S. Taiwan's principal market for colour sets. The complaint was lodged against both Taiwan and South Korea. Taiwan's major export competitor, by the Committee to Preserve American Color Television (Compact). The U.S. International Trade Commission found in June that exports from both countries were injuring the U.S. domestic industry. It is expected to rule on the dumping charge by the end of this year.

Obstacles ahead

Despite the charges, that export surge continues. During the first half of this year, Taiwan's exports of finished sets and kits rose by nearly 80 per cent to \$93m from \$52m during the same period in 1982. Exports of finished sets alone nearly doubled in that period. If the recovery continues at the same rate during the second half, export sales for the year will exceed the high-water mark of \$172m set in 1981.

Nevertheless, manufacturers of colour televisions have serious obstacles to contend with. First, whole-set exports are limited to the NTSC types used in the U.S., Japan, Korea, and a few Latin American countries. Taiwan cannot export either Pal or Secom system sets

because the patent-holders for this technology in West Germany and France have refused to provide local manufacturers with the necessary licences. Instead, Pal and Secom exports are limited to completely knocked-down (CKD) packages, and those only to certain countries such as Argentina.

Only one Taiwan company, Tatung, exports to Pal-system countries, from its manufacturing facility in the UK. But Tatung may only export one set for each one it sells in the U.S.

Thus, Taiwan's domestic manufacturers are mostly tied to the volatile NTSC market in the U.S., and are faced not only with

already-strong competition from Japanese and South Korean companies in that market, but also with rising protectionist sentiment there.

In addition, Taiwan's numerous but relatively small manufacturers are at a price disadvantage with the "big three" of Korea, whose strong vertical integration offers lower production costs.

In an attempt to cope, larger manufacturers such as Tatung and Sampo moved offshore a couple of years ago and established manufacturing bases within the U.S. In addition, AOC International, whose Taiwan facility was purchased from Admiral of the U.S. by Asian investors in 1978, set up a plant

near Kansas City, Kansas. But to date, none of these ventures has sold significant quantities of colour sets in the U.S.

Instead, more than 20 manufacturers in Taiwan of varying size vie with varying success for shares of the export market. This year, most of these appear to be concentrating on the 13-inch and 14-inch sets that are selling well in the U.S.

But ironically it is not the big names in Taiwanese television—Sampo, Tatung, Hitachi, and others—that are reaping the benefits of the pickup in orders. In fact, according to the Taiwan Electrical Appliance Manufacturers Association (Teama), which counts 17

colour set manufacturers among its members, exports from the big names are either flat or are decreasing this year. Instead, Teama says, two companies, Aoc and Orion Electric, have provided the thrust so far this year.

Aoc, for instance, through the end of July had sold 220,000 colour sets valued at \$96m, compared with 155,000 worth \$50m in all 1982. Even during hyperactive 1981, Aoc sold 185,000 sets valued at \$60m. Marketing official Mondy Hong says the company has confirmed orders in hand that will bring the 1983 total of sets sold to around 400,000 sets, worth \$65m to \$70m. Nearly all those sets will go to the U.S., and half will be sold under the Aoc brand through its American affiliate, Aoc International.

American tastes

Mr. Hong attributes the company's marketing success both to intensive research and development efforts which allow it to offer lower prices, and to exterior design catered to American tastes. In price terms, a 13-in set with rotary tuning retails in the U.S. for \$200, and a similar 14-in set for \$250.

It is prices like these that have prompted the dumping charges, which state that Taiwanese companies are selling sets in the U.S. for as much as 57 per cent below fair market value. If the ITC decides this is true, and imposes dumping duties of only a few percentage points, Taiwan's chances of remaining competitive could be seriously eroded.

Strong growth forecast in VCR sales

TOKYO—Japanese electronics companies will export increasing numbers of video cassette recorders (VCRs) every year from now until 1986—and domestic sales will also rise. Nomura Securities said in a report on the Japanese electronics industry.

Sales in calendar 1983 will be 17.4m sets, a 34 per cent increase on last year, with 14.1m exported.

In 1984 sales will total 21.5m (17.3m in exports), in 1985 total 26.6m (21m), and in 1986 total 31.1m (24.4m).

Nomura said VCRs continue to rank as a major consumer purchase intention, with nearly 60 per cent of Japanese consumers planning

a purchase in the next five years.

In other industrial countries the VCR market will grow 20 to 30 per cent a year in the coming three to five years, it added.

Recent brisk exports to the U.S. show earlier inventory adjustment has now ended and shipments out of Japan are starting to fall behind demand.

Nomura said the Olympic Games next year will stimulate purchases, so the strong U.S. demand will continue for some time.

Noting that a broad 5mm VCR format for the NTSC and Pal systems was agreed at a conference of Japanese

companies earlier this year, Nomura said the new format will most likely only be introduced when the present half-inch tape system market is saturated.

Plant and equipment for making the half-inch models has not yet been fully depreciated, and manufacturers are planning to expand such plants to meet the current demand, it said.

Since the half-inch model is expected to maintain its sales momentum, manufacturers are unlikely to introduce the 8mm system in the near future, especially when so far there are no tapes available for playing on the system, Nomura said.

New Soviet car nears launch

BY LESLIE COLT IN BERLIN

A NEW Soviet-built Lada car, designed and engineered by Porsche, is to make its debut late next year. A Czechoslovak motoring magazine has disclosed details of the car which will be the first modern Soviet automobile to be produced. A Lada representative in West Germany said the new model is expected to begin arriving on Western European markets in 1985 when 230,000 cars are to be produced.

Designated the Lada 2108, the front-wheel-drive car is being

readied for production at Togliattigrad by Porsche's development centre. The Soviet assembly lines, with an annual capacity of 800,000 cars, are equipped with industrial robots.

A drawing of the new car in the Czechoslovak magazine shows a two-door hatchback bearing a resemblance to many Western cars of this type. The rear wheel cut-out resembles that of a new VW Polo.

The Lada spokesman said a considerable sum of money was

paid to Porsche to develop the new Lada which will end Soviet production of the more than 15-year-old Fiat 124 which was built under licence. The same model Fiat served as the basis for the Polski Fiat built in Poland which two years ago was replaced by a new Polish-designed car, the Polonez.

The Porsche-designed Soviet Lada could represent competition for Western cars, such as VW's Golf, Opel's Kadett and Ford's Escort. It is to be offered with a 1.2- and 1.6-litre engine.

World Economic Indicators

RETAIL PRICES

(1975=100)

	July '83	June '83	May '83	July '82	% change over previous year
UK	249.6	248.3	247.7	239.6	4.2
W. Germany	148.5	139.9	139.4	137.0	7.4
France	229	227.2	226.0	209.6	9.5
Italy	345.5	342.1	340.1	298.8	15.2
Netherlands	157.1	156.3	156.1	153.1	2.6
Belgium	172.1	170.4	169.3	160.3	7.5
U.S.	184.9	184.3	183.3	180.2	2.8
Japan	150.4	151.5	149.9	147.6	1.9

Source: Eurostat

Sierras for U.S.

Ford Motors plans to import the Sierra model car, built in Europe, into the U.S. starting in 1985. Reuter reports from Dearborn, Ford has no plans to begin importing the Telstar, built in Australia.

Toyota Ireland halt

Toyota Motors said it will halt production of its small cars in Ireland on a knock-down basis in the near future. Reuter reports from Osaka. It will export shipments of assembled cars from Japan.

German 757 orders

Boeing has received an order for two 757 aircraft from Lufttransport-Süd of Munich. Reuter reports from Seattle. Value of the order was \$85m. Deliveries would begin in June.

CONTRACTS & TENDERS

Announcement of the Project for Productivity Improvements of the Integrated Steel Plant at EREGLI, Turkey

Announcement is hereby made of a project for "Productivity Improvements" at the integrated steel plant of EREGLI DEMIR VE ÇELİK FABRIKALARI T.A.Ş. (ERDEMİR) in KOD, EREGLI, TURKEY. In addition to increasing production, auxiliary objectives of the project are to improve quality, reduce production costs and decrease energy consumption.

The productivity improvement is to be procured under International Competitive Bidding Procedures of the World Bank (I.B.R.D.) which is also expected to supply project financing out of an existing loan to ERDEMİR.

The principal facilities to be so purchased and installed are the following:

1. Coal Blending System;
2. Desulphurisation Plant (Hot Metal);
3. Sinter Plant Modifications;
4. Burnt Lime Plant;
5. 160/50 MT BOF Teeming Crane;
6. Hot Searing Machine;
7. BOF Ladle Refining System;
8. Hot Strip and Cold Mill Modifications.

Invitation to bid on the facilities listed above will be furnished only to those firms that have previously qualified for the specific items to be purchased. Therefore, firms wishing to be so qualified should communicate in writing, in English language only, and absolutely indicate project number(s) and complete system name(s) involved one through eight above.

EREGLI DEMIR VE ÇELİK FABRIKALARI T.A.Ş.
Attention: SATINALMA GENEL MÜDÜR YARDIMCILIĞI
KOD, EREGLI, TURKEY

Such communications must be received at the above address not later than October 17, 1983. Information as to the requirements for prequalification of the bidder will be forwarded to those responding to this advertisement.

THE COUNCIL OF EUROPE RESETTLEMENT FUND FOR NATIONAL REFUGEES AND OVER-POPULATION IN EUROPE

LUX. FCS 500,000,000
7/91 1972/1987

Holders of the above mentioned bonds are hereby informed that the annual redemption instalment due September 15th, 1983 covering a nominal amount of LUX. FCS 30,000,000 has been partially settled by bonds repurchased on the market for the amount of LUX. FCS 9,500,000 and partially by cash for the amount of LUX. FCS 40,500,000.

The bonds, as drawn bear the numbers corresponding between Nos. 2048 and No. 1272 and the interest is payable and falling due on September 15th, 1983.

These bonds are redeemable at par and come to bear interest on September 15th, 1983.

The amount remaining outstanding on September 15th, 1983 on will be LUX. FCS 200,000,000.

BANQUE INTERNATIONALE A LUXEMBOURG
Société Anonyme

Luxembourg,
August 18th, 1983.

THE SCOTTISH AGRICULTURAL SECURITIES CORPORATION P.L.C.

100% Debenture Stock, 1989-91
Notice is hereby given that the REGISTERS of the CORPORATIONS above mentioned Debenture Stock will be CLOSED for TRANSFER and REGISTRATION from the 16th to 29th September 1983 both days inclusive.

By Order of the Board,
H. J. McILROY, Secretary,
29 Palmerston Place,
Edinburgh EH12 5BR.
29th August 1983.

FIR INTERNATIONAL INVESTMENTS

\$15 MILLION GUARANTEED FLOATING RATE NOTES 1986

The interest on the above Notes in respect of the six months period ending 30th September 1983 will be 10.75% per annum, to be paid quarterly in arrears on 30th September, 30th November, 30th January and 30th March 1984. The principal of US\$15,000,000 will be paid in full on 30th September 1986.

Principal Paying Agent

LONDON BRICK PLC

NOTICE IS HEREBY GIVEN that the REGISTERS of the above mentioned Debenture Stock will be CLOSED for TRANSFER and REGISTRATION from the 16th to 29th September 1983 both days inclusive.

By Order of the Board,
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Edinburgh EH12 5BR.
29th August 1983.

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Flights to
U.S. at
peak
pressure

By Arthur Sandles in London

TENS of thousands of American students making their way back to the U.S. after the summer holidays are helping to give airlines on the North Atlantic their busiest ever time and few seats are left.

British Airways warned passengers to book ahead, and even then be prepared to go to another gateway airport than their first choice—Boston instead of New York, for example.

British Caledonian said its traffic was up 22 per cent on the North Atlantic compared with a year ago. "Los Angeles traffic in July was up by 50 per cent, and Houston by 25 per cent. Standby seats are virtually non-existent at the moment."

"People Express, which started its service from Gatwick to the U.S. earlier this year appears to have enjoyed a remarkable first summer season. The British Airport Authority, which monitors all traffic, suggests that the airline has been operating at load factors of 90 per cent or more.

CBI expects output to
taper off next year

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

BRITISH INDUSTRY continues to show signs of a slow recovery, but growth in output is likely to tail off next year says the Confederation of British Industry, the employers' federation.

The CBI's latest monthly trends survey of 1,500 companies shows that output is expected to rise further and order books remain at the improved levels of the early summer. However, export orders appear to have weakened a little since May and June, when companies reported a significant improvement from the low levels of last year.

The CBI says that the combination of weaker export orders with rising output indicates that the companies expect domestic demand to be relatively buoyant.

However, in its latest forecast for the UK economy also published in its economic situation report, the CBI takes a rather sombre view of prospects for next year. It believes national output this year will be about 2 per cent higher than last year's level, but it believes growth will continue only into the first few

months of next year and will then stop.

It predicts output will be almost unchanged between the first and final quarters of 1984. However, because of the higher starting point, the average level of output next year will be about 2 per cent above the average level this year.

The CBI's rather gloomy appraisal is closely in line with that of the National Institute of Economic and Social Research published last week. The institute also expects this year's recovery to fall away quickly next year.

The CBI and the Institute both believe that unemployment will continue to rise from about 3.1m (excluding school leavers) in the late autumn of this year to 3.2m by the end of next year.

Both organisations expect the inflation rate to rise, although the CBI is slightly more optimistic than the institute on this score. The CBI predicts an annual rate of increase of the retail price index of 6 per cent by the late autumn of this year, rising to 8½ per cent for most of 1984. The institute by comparison

expects inflation to have reached an annual rate of 7½ per cent by the end of 1984.

The contrast between the recent relatively encouraging improvements in the UK economy, particularly of consumer demand, and the subdued longer term outlook reflects a continuing depression among Britain's major trading partners in Europe.

National output in France, West Germany and Italy is expected to grow by only between 1 and 1½ per cent next year. However, growth in the U.S. and Japan is expected to be running at 4 to 4½ per cent by then.

Economic stagnation in the UK next year would present the Conservative Government with an acute policy dilemma: whether to relax its present tight strategy for fighting inflation in the interests of stimulating growth.

Its present plans to continue to squeeze down public borrowing as a proportion of national income suggests that Government spending must be kept on a very tight rein with little room for tax cuts.

Spending
growth
'will go on
falling'

By Carla Rapoport

GROWTH IN UK consumer spending will continue to taper off through 1983, predicts the Economic and Research Department of the Co-operative Union.

In its annual publication, Economic Prospects, the Union predicts that the volume of consumer spending will increase by just 2.4 per cent this year, because only moderate growth is expected in real incomes.

The sharp drop in savings recorded in late 1982 and early 1983 will not be repeated in 1984, and will cease to be a driving force behind higher consumption. Another year of moderate improvement in real incomes will produce an increase in the overall volume of consumer spending of just 1.9 per cent in 1984.

Taking account of expected price increases, the growth in the value of consumer spending is forecast to be between 8 and 9 per cent annually for 1983, 1984 and 1985.

The study also forecasts:
• Inflation may be a little faster in 1984, but still quite low at about 7 per cent.

• There is little chance that the number of unemployed will start to fall in the near future. "The depressing fact is that it will take many years of expansion both in manufacturing and services, to make a significant impact on the length of the dole queues," the study states.

• Bank base rates are expected to stay within the 9 per cent to 11 per cent range in 1983.

Move to
resolve
diverted
ship row

TOP-LEVEL talks will be held in Liverpool today in an effort to resolve a dispute over the handling of a mixed general cargo aboard a Polish Ocean Line freighter operating on the East African service, which has been diverted from Hull, Humberside.

Meanwhile, it has been agreed at preliminary discussions that whatever happens when work resumes this morning, the ship, Wladyslaw Lokietek, will remain isolated in the Alexandra Dock at Bootle while the rest of the port works normally.

WORKERS at John Brown Engineering in Clydebank, Glasgow, have begun an immediate overtime ban to oppose the 500 lay-offs announced by the company last week. At a mass meeting yesterday the workers gave their overwhelming backing to initial measures to oppose the redundancies.

THE Greater London Council (GLC) may go to the courts "if necessary" unless Environment Secretary Mr Patrick Jenkin withdraws within 21 days his ban on allowing the GLC to amend and update the Greater London Development Plan, Mr George Nicholas, chairman of the council's planning committee, said yesterday.

STRIKING plumbers at Belfast's Harland and Wolff shipyard are expected to meet today to decide their next move after the management refused to reinstate two shop stewards sacked for alleged industrial misconduct.

Cabinet Secretary calls for an
end to leaks – in a leaked letter

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE Cabinet Secretary, Sir Robert Armstrong, is urging Whitehall's most senior civil servants to prevent further leaks of confidential government documents – according to a leaked copy of his own confidential letter from the Cabinet Office.

His letter to all 40 permanent secretaries heading government departments, is prompted by the spate of leaks during the general election campaign.

Labour scored what many considered to be its only real success with attacks based on leaked documents from the Treasury, the Department of Health and Social Security, and the National Economic Development Council.

Sir Robert's leaked letter records permanent secretaries' dismay at these leaks, which he says "can only have been deliberately perpetrated with the object of embarrassing

members of the government party."

He acknowledges that "most if not all of them must have been perpetrated by civil servants," and describes them as "an intolerable breach of trust" which "put at risk the Civil Service's standing as a non-political public service."

Sir Robert emphasises that the difficulty is not so much over the breaches of the Official Secrets Act but over an employee's duty to keep his employer's confidences.

He writes: "There can be no justification or excuse for passing out a document, or indeed for orally disclosing information, which is entrusted to an employee in confidence."

"If it is done for money, it is an act of corruption. If it is done for political or for personal motives, it is an act of disloyalty which reflects a corrupt sense of values, and the person concerned had better seek

employment where he can pursue the causes in which he believes without breaching his employer's confidences. It is not for civil servants to play politics."

"Whatever the motive, the perpetrator forfeits the trust placed on him when he accepts employment, and with it the right to continue in that employment."

After this clear warning of dismissal, Sir Robert stresses the need to "reassert the values and the sense of professional obligation and loyalty which will make such leaks unacceptable and unthinkable at any time."

Sir Robert makes it clear he is not referring just to the leaking of documents but also to information given orally to journalists or others. The leaking of Sir Robert's own letter is likely itself to give further impetus to his drive against disclosures.

Nissan 'set
to start
in Britain'

By John Griffiths

NISSAN will announce in October that it will go ahead with a UK car manufacturing plant, according to an independent research report, published today.

The study strongly reinforces a growing belief within the motor industry that, after more than 2½ years of agonising over a project expected to cost up to £300m, Nissan's board has just decided to proceed.

Then 330-page study has been produced by the Zalki business journal of Japaneeds (Multilingual), a British consultancy specialising in Japanese business affairs.

It says Nissan's announcement will follow an October board meeting at which updated profit forecasts will be made. The meeting also immediately precedes a planned visit to Japan by Britain's Trade and Industry Secretary, Mr Cecil Parkinson.

The project envisages the eventual production of 200,000 cars a year, for sale throughout the EEC. As originally conceived, the cars would have an initial 60 per cent UK or EEC content, building up to 80 per cent with the advent of UK-built engines.

In reaching its conclusions the Japanese report says Nissan now believes there is an overriding need for a European plant, to counter protectionist sentiment, secure a lead over its Japanese rivals, and retain its place among the world's top car makers.

It emphasises that the decision is being made on the prospect of an eventual profit, estimated to take seven to ten years, and the achieving of a corporate consensus.

Pickets keep
yard closed

By Mark Meredith, Scottish Correspondent

STRIKING workers at Highlands Fabricators' offshore construction yard near Inverness yesterday defeated management hopes of a return to work. Only 21 workers crossed the picket line, although the union said fewer than 12 had gone through.

The yard has been closed for 11 days after a strike among its 2,000 hourly paid workers over benefits lost under a cost-cutting programme introduced during the summer break.

Highlands Fabricators, which is jointly owned by Brown and Root and Wimpey, wishes to cut the hourly paid workforce by 400 men.

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Move to resolve diverted ship row

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BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

- Sept. 1-3 Business and Light Aviation Show (01-643 8040) Cranfield
- Sept. 3-7 Autumn Gifts Fair (01-335 9201) Olympia
- Sept. 5-6 Builders' merchants exhibition—BEMEX (01-680 4200) Wembley Conference Centre
- Sept. 6-9 International Carpet Fair (021 705 6707) Harrogate Exhibition Centre
- Sept. 6-9 Offshore Europe Exhibition and Conference (01-549 5831) Bridge at Don Showground, Aberdeen
- Sept. 11-14 Cable and Satellite TV Exhibition and Conference—CAST (01-457 4397) N.E.C., Birmingham
- Sept. 11-14 International Menswear—MAB (0727 63213) Earls Court
- Sept. 12-16 International Welding, Cutting and Metal Fabrication Exhibition—WELDEX (021 705 6707) N.E.C., Birmingham
- Sept. 12-24 Chelsea Antiques Fair (0727 56089) Chelsea Old Town Hall
- Sept. 15-25 International Motor Show (01-734 0543) Frankfurt
- Sept. 19-22 International Hotel and Catering Equipment Exhibition—IGAFA (01-456 1851) Munich
- Sept. 26-30 S.E. Asian Production Machinery and Industrial Development Show—MACHINE ASIA (01-486 1851) Singapore
- Sept. 27-Oct. 1 International Chemical Plant and Engineering Exhibition—INCHEM (01-221 2043) Tokyo
- Sept. 30-Oct. 4 Toy and Gift Autumn Show (01-839 5901) Taipei
- Oct. 2-5 Middle East Construction and Municipal Services Exhibition (01-835 8200) Kuwait

OVERSEAS TRADE FAIRS

- Current International Security Conference and Exhibition (until Aug. 30) (0458 38085) New York
- Sept. 1-3 International Semi-Conductor and Electronics Components Exhibition—INTERNEPCON (0453 39085) Hong Kong
- Sept. 4-10 International Autumn Fair (01-433 3111) Leipzig
- Sept. 8-10 International Confectionery, Chocolate and Sweets Trade Exhibition—INTERZUC (01-439 3964) Paris
- Sept. 10-13 International Autumn Trade Fair (01-891 2606) Vienna
- Sept. 14-21 International Engineering Fair (021-455 8800) Brno

BUSINESS AND MANAGEMENT CONFERENCES

- Sept. 1-2 Metal Bulletin barter conference (01-530 4311) Vista Hotel, New York, U.S.
- Sept. 7-8 FT Conference: Asian energy (01-621 1355) Singapore
- Sept. 12-14 Risk Research Group: Captive insurance companies—establishment, operation and management (01-236 2173) Tower Hotel, London
- Sept. 14-16 Industrial Relations Services: Employee communications—how to get your message across and achieve success (01-528 4761) College of Marketing, Cuckham, Berks.
- Sept. 14-16 Frost and Sullivan: Office automation and integrated information processing support systems (01-456 0334) Hilton Hotel, Amsterdam
- Sept. 15-16 INSIG: International seminar on micro-computers and banks (Luxembourg 209 311) Luxembourg
- Sept. 18-23 The Institute of Cost and Management Accountants: The design and development of management information systems (01-657 2311) Cawthorpe House, Epsom, Surrey
- Sept. 18-23 Macfarlane Conferences: TV and radio—opportunities in corporate and financial advertising under the new IBA code—and the implications for Press advertising (01-657 7438) Epsom Press Centre, ECA

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

UK NEWS

Liberal MPs step up revolt against Steel

FINANCIAL TIMES REPORTER

SUPPORT was being mobilised at the weekend for a motion due for debate at the Liberal Party Assembly and intended to cut the power of the party's leader, Mr David Steel. The motion due for debate in Harrogate next month by the party's strategy commission, is signed by Mr Cyril Smith, Mr David Alton and Mr Simon Hughes, three of the 17 Liberal MPs. At the weekend Liberal associations throughout Britain have received letters signed by Mr Smith and Mr Alton seeking support for the motion which reinforces calls to end the Liberal leader's right of veto over policy decisions taken by the assembly. The motion urges that Liberals dissenting from conference decisions should not state their views as party policy — a clear reference to support from the Alliance of Liberals and the Social Democratic Party (SDP) for cruise missiles in the UK at the general election despite a Liberal Assembly decision two years ago to ban them. This will be seen as going a long way to support moves by Young Liberals to end Mr Steel's right of veto over policy decisions taken by the assembly. The motion seeks what it calls "a more corporate style of leadership" within the party, echoing the criticisms of Mr Steel made last week by the secretary of the influential Association of Liberal Councillors, Mr Tony Greaves, who, Mr Steel said, should have been sacked.

Drive to keep lorries

BY GARETH GRIFFITHS

LONDON companies would face major problems if heavy lorries were banned in the capital by the Greater London Council, according to a report published by an umbrella group of 13 trade bodies. The report, from the London Needs Lorries organisation, says a ban would not produce environmental advantages and there would be a heavy economic price. A survey of 400 companies indicated 40 per cent of them thought they would lose their competitive edge and have to create redundancies, and 32 per cent would abandon plans to extend their businesses or develop new business in London. About 29 per cent of the companies said they would be forced to move from London and 16 per cent would go out of business.

TUC likely to record fewest members

By Philip Bessett, Labour Correspondent

MEMBERSHIP of the Trades Union Congress (TUC) is likely to fall to about 10m by the end of this year. Four years ago TUC membership stood at 12.2m — its highest ever — but since then unemployment has steadily decreased it.

Statistics being presented to next week's annual TUC Congress will show that TUC membership currently stands at 10.5m. This figure, itself 500,000 lower than the previous year's, was recorded last December.

TUC officials expect the trend to have continued throughout this year, pushing membership down to about 10m, the lowest for 10 years.

Even more significantly, the TUC has for the first time now acknowledged that trade union organisation itself — trade union membership expressed as a percentage of the total number of employees — is in decline. Falling numbers in the Amalgamated Union of Engineering Workers will take away the union's new seat on the general council, which it will win next week for the first time.

Slow progress towards exploiting new ideas

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

HOW CAN Britain profit more from new ideas? The question will be put at the highest national level on September 12 when the British Prime Minister leads a London seminar of business chiefs, scientists, other academics and top civil servants.

The meeting marks the opening of Mrs Thatcher's personal campaign to boost technological progress in industry. It comes 18 years after her Labour predecessor, now Lord Wilson, appointed Britain's first Minister of Technology with the identical aim in view.

Despite countless hours of work on the topic since, the problem stays identical too. By the standards of the advanced nations, while British universities are good at producing Nobel Prize winners, British industries are poor at exploiting new inventions in either products or processes.

Another topic bound to be raised at the seminar is that of closer relations between industry and research departments in universities and polytechnics. Detailed proposals to this end were made in June by the Prime Minister's esteemed Advisory Council on Applied Research and Development in conjunction with the Advisory Board for the Research Councils.

The trouble is that essentially similar proposals were made by the

Confederation of British Industry in a report 13 years ago. And while much activity followed, including the establishment of industrial liaison centres and even commercial companies by higher educational institutions and the opening of science parks, the industrial renaissance is not noticeably nearer.

"All my adult life people have been rabbling on about the need for better relations between universities and industry," said Professor John Ashworth, vice-chancellor of Salford University and formerly chief scientist with the Central Policy Review Staff.

"If it was simply a problem of goodwill between them or even of money for joint projects, we'd have cracked it years ago."

There are flaws, he thinks, in the assumption behind the better relations theory that the prime source of profitable innovation is intellectual ideas of the sort that might be stored away untapped in academia. A study by Manchester University in 1972 of 158 "novel, important ideas" which led to successful inventions found that only 10 had come direct from universities compared with 116 from within companies.

Mr Geoff Burkitt, director of Brunel University's Industrial Services Bureau, agrees. "I've a groove

in my carpet made by companies' new-product managers coming here asking for our new ideas. I tell them that universities tend to produce the sort of things they're looking for only rarely and then usually by accident."

The time when universities and polytechnics can often help, he believes, is when a company comes along with what he calls an "industrial if-only." It typically arises when someone has spotted a promising market demand and knocked out a prototype means of supplying it — for example, a machine that would do the job "if only" the maker could overcome a weakness in the materials of which it is made or a chemical compound which would work "if only" it had a slightly different molecular structure.

"That's the kind of problem academics are good at. But they can't give the right answer without the question and that can't usually be asked unless there are people who create if-onlies. There don't seem to be enough around."

The shortage is blamed by Professor Michael French, of Lancaster University, at least partly on the education system's "gross neglect" of practical engineering design as distinct from theoretical engineering science.

Last check up before take-off.



Financial Times Conferences

WORLD FINANCIAL FUTURES

London — September 28 and 29, 1983

This major conference is timed to coincide with the completion of the first year's trading in the new London Exchange. Under the Chairmanship of Mr Jock Bruce-Gardyne and Mr Ron Porter it will feature papers by Mr Thomas Strauss, Salomon Brothers, New York; Dr Kurt Andreas, Deutsche Bundesbank; and Mr Leo Melamed, Chicago Mercantile Exchange.

THE PROFESSIONAL PERSONAL COMPUTER

Markets and Strategies

London — October 11 and 12, 1983

Mr Floyd Kvamme, Executive Vice-President for Marketing and Sales, Apple Computer; Mr Alex McIntosh, Director of Entry Systems Operations for IBM (UK) International Products; and Mr Adam Osborne, Chairman of the Board of the portable computer company which bears his name are among the speakers at this top-level meeting.

COMPETITION, MERGERS, ACQUISITIONS, BUY OUTS AND PUBLIC POLICY

London — October

Policy on competition and mergers and acquisitions in Britain is a subject of considerable controversy. This conference will provide a valuable opportunity to examine Government policy, to review the role of the Office of Fair Trading and Monopolies and Mergers Commission and to consider the views of leading business figures who have been closely involved. Mergers and takeovers in the United States will be thoroughly debated with papers from Mr John Shad, Chairman of SEC, and Mr Bruce Wasserstein, Managing Director, Mergers and Acquisitions Section, The First Boston Corporation, New York.

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BUILDING AND CIVIL ENGINEERING

FINANCIAL TIMES CORRESPONDENTS ANALYSE GLOBAL TRENDS IN HOUSEBUILDING

Still bad news on the new homes front

THE SORE thumb sticking prominently from this month's otherwise promising U.S. industrial production figure was housebuilding. While general production showed a 1.8 per cent rise in July, U.S. housing starts revealed a minute but ominous drop.

At the same time, the Fédération Internationale Européenne de la Construction (FIEC)—Europe's main monitoring body—published a deeply gloomy half-yearly report on the state of the industry.

The FIEC report, compiled by its economic experts group and incorporating data on Spain, Portugal, Switzerland and Sweden in addition to the EEC countries, warns that this key indicator is still declining in 1983, though at a slower rate.

In the housebuilding sector—usually the first to demonstrate an upturn for construction—the broad trend continues to slide downwards. Even in the UK, which with West Germany is showing some growth, figures published last week showed a seasonally-adjusted 19 per cent on the first quarter.

Though this is accounted for by uncertainty over mortgage rates and the general election outcome, Britain's building materials producers and Government analysts suggest a stabilising or slight fall in house starts next year with no further improvement in 1985.

Elsewhere, housebuilding

Japanese housing construction has had little impact on the country's economic performance after a decade in the doldrums. Few believe it will have much effect in the foreseeable future.

A revision of earthquake construction standards prompted a mini-boom in 1981. A similar small spurt was induced last winter by a special low-interest loan programme launched by the Housing Loan Corporation.

Nomura Research Institute projects some slight recovery in the second half of the current fiscal year, which began in April, but full year housing starts at 1.16m unit will only be a fractional rise on the 1.15m units of 1982.

looks set to hit new lows in 1983. Worst comes Belgium where, after two years of declines of over 40 per cent, a further 10 per cent fall off is anticipated, due to a continuing decline in demand.

In France, FIEC predicts a further 3 to 5 per cent fall this year, while the Netherlands'

A glimmer of light in the first quarter, showing a 16 per cent rise to 26,000 in new houses sold against the same period last year, has now faded.

Forecasters now predict stagnation in new housing starts next year at about 300,000. With the Government preparing a further squeeze on public sector contracts in next year's budget, there is little hope of an imminent upturn.

The Euroconstruct forecasting group projects a 5 per cent volume fall in general building works activity in France next year after a 5.2 per cent drop this year and a 3.9 per cent decline in 1982.

is expected to drop back by 8.5 per cent — a worsening of last year's 5.1 per cent figure.

While Ireland and Denmark should hold building rates steady after a disastrous 1982 (down 25 per cent and 14 per cent respectively), Italy is forecast to record a further 2 per cent downturn.

Rising interest rates are damaging the U.S. housebuilding industry more dramatically than the official housing start figures indicate, according to the National Association of Home Builders.

Seasonally adjusted housing start figures for July showed a 0.6 per cent fall for the second consecutive month but the NAHB claims that this total is inflated by starts for multi-family units.

U.S. builders constructed 74,000 of these units in 1982 under the rent subsidised programme for lower income groups, but this will fall to 14,000 this year when the programme ends.

The significance of housebuilding decline is demonstrated most vividly in countries' unemployment figures. According to British estimates, the sector is regarded as a key generator of employment, greater than any other industrial sector.

Each house built, for example, is believed to create at least 2.5

new jobs — the majority in building itself, but with others following in allied trades and professions from the building materials industries to professions such as architects and estate agents.

As a result, governments are coming under increasing pressure from politicians, house-

builders' federations and trade unions to stimulate the sector.

West Germany has had most success in this field, with special Government measures, lowered credit rates for housebuying and falling production costs fuelling the upturn.

Measures taken in France and the Netherlands have failed so far to boost the sector, however, though the Dutch Government is expected to renew attempts to increase sales while keeping house purchase interest rates at the lowest levels possible.

With the sole exception of West Germany, non-residential construction orders are expected to decline in all the countries under examination in the current year. Across Europe, continued restraint on public expenditure is cutting capital spending projects and thus building order books.

Euromoney in the renovation and refurbishment market—usually a boom sector in recession—is losing pace, according to FIEC. Civil engineering projects are also declining though there are some positive signs in Spain, Sweden, and Switzerland.

The most encouraging news from FIEC is that foreign contracting is continuing at energetic levels, though this too is under pressure.

In the meantime, the greatest signs of hope for European builders must lie in the U.S. trends along with prayers for lower interest rates.

CONTRACTS

Gammon to build £21m Hong Kong Government offices

The Hong Kong building development department has awarded a U.S.\$32m (£21.5m) contract to GAMMON BUILDING CONSTRUCTION for the construction of a government office building at Queensway in the middle of the business centre.

Work on the building, next to the new supreme court, now under construction, will be completed in about 36 months. It will be a 47 storeys tall with a pentastorey podium. Next to it will be a seven-storey "L" shaped block, providing about 54,000 sq metres of office accommodation and car parking facilities. This is one of the office complexes being built to help reduce the shortfall of government office accommodation.

An eight-storey block under construction in Sai Hung, a nine-storey building above the Sha Tin railway station, a seven-storey block in Tuen Mun town centre and the 27-storey harbour building.

Mr Joseph Lei, acting director of building developments said that the largest will be the Government complex at Harbour Road on Wan Chai reclamation, which will cost about

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U.S.\$21m (£14.5m) it will comprise six blocks of government buildings: a district/central building, a science building, a public car park, a fire station and two office towers. Both 49 storeys high, they will provide a total of 200,000 sq metres of government office space.

RUSH AND TOMPKINS has a contract for a film project to divert the Amari River, a tributary of the Blue Nile on the Central Plateau of Ethiopia.

The contract for the Ethiopian Electric Light and Power Authority, includes construction of an earth/rock fill dam 700 metres along the crest to a height of 16 metres, which will involve the movement of some 558,000 cu metres of earth and rock fill, and the building of 20 km of gravel-surfaced permanent access roads. A 3 metre diameter tunnel, 1.6 km long and concrete lined, will be driven in sandstone rock and the 100MW Fincha hydro-electric power station. A 20 per cent improvement on energy output will be the result from these improvements.

Renaissance of a faded beauty

THE ADELPHI HOTEL, near Liverpool's Lime Street Station, is probably the most imposing symbol of the city's fall from glory. When it opened in 1914 it was rightly hailed as one of the five best in the world. More recently, accelerating decline testified to British Rail spending only £13,000 on maintenance in the last two years of owning it.

Now the Adelphi—where Harold Wilson used to spend election night—is about to be born again, a renaissance that will bring some joy to the Government and, if all goes to plan, a lot of regeneration to Merseyside.

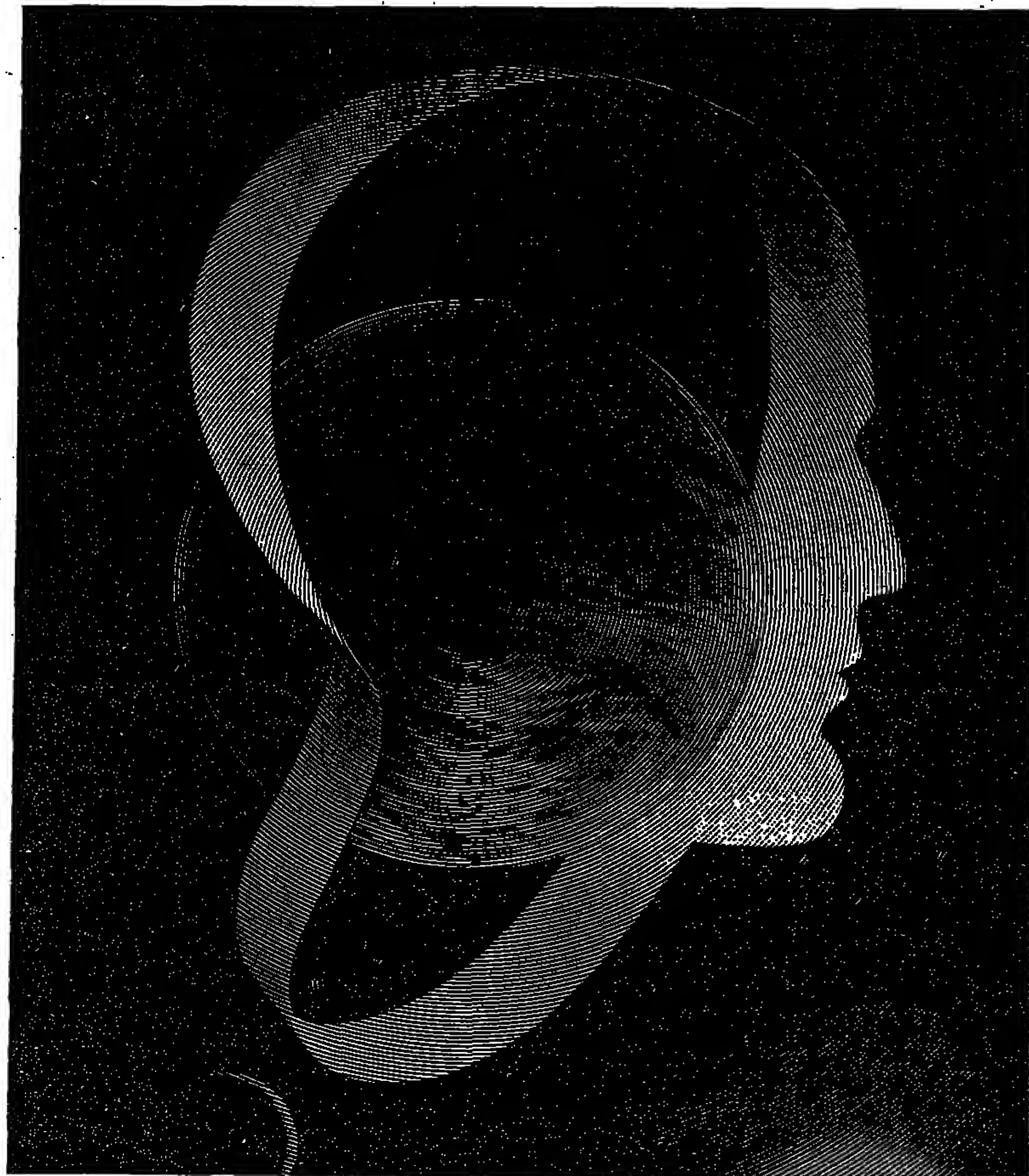
For the scheme that will create what is likely to be the third biggest exhibition-cum-conference centre-cum-hotel complex in Britain is one of the first large-scale examples of public and private sectors jointly funding urban renewal. The private sector input is coming from the Manchester-based Britannia Hotel Group, which bought the Adelphi from

fare and exhibition requiring 1,000 bedrooms in the autumn of 1985.

That sort of success would be greater than even his regenerated Adelphi could handle with its projected 370 rooms, so all of Liverpool's hotels would stand to benefit—perhaps mollifying their complaints about Government help for a competitor.

By then the Adelphi's rooms will have been refurbished and all will have bathrooms en suite. Only 140 are in use at present but Britannia's management has now got occupancy up from 35 to 60 per cent.

BR gutted the top two floors so these will be filled with modern-style hotel rooms. The Adelphi's old rooms, however, will all be restored to what they once were—imitations of first-class state rooms on transatlantic liners, complete with gigantic, bathy and specially wide doors that opened outwards so that passengers, in overnight transit from Lime Street Station to the Princes



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Refurbishment gamble at Liverpool's Adelphi.

BR in March, Britannia had the Adelphi valued at £1.3m after tenders had been invited but managing director Alex Langsam decided to gamble that no one else would bid for such a potential white elephant and offered just under £1m.

His hunch paid off and BR leapt at the chance to be rid of a monument to a better yesterday that was losing an annual £250,000. But Langsam could only go ahead with his plans if he also got public sector support. Total cost is projected at about £5m. Last week Lord Bellwin, the Environment Minister, announced £1.3m of urban development grant towards the scheme.

Three-quarters of this will come from Government and the rest from Merseyside County Council. Overall, the figures comply with the formula promulgated by Mr Michael Heseltine, now Defence Secretary, when he was "Minister for Merseyside" in the wake of the 1981 Toxteth riots.

He envisaged that key regeneration schemes could be financed by 22 of private sector money for every £1 put up by central and local government. The public sector contribution was designed to make otherwise unviable projects potentially profitable.

Langsam's scheme includes not only restoration of the hotel to its Edwardian elegance but also the purchase and development of a disused, ice-cream factory behind it as an exhibition hall. He says that only London and Birmingham will be able to offer anything bigger and that facilities at Harrogate and Brighton will look small in comparison.

To get exhibition and conference business, he is forming a joint promotion company with the county council. Last week saw a firm inquiry for a con-

landing stage at the then teeming Liverpool Pierhead could have their trunks wheeled in without hindrance.

Langsam has raised most of his share of the money from long-term loans—a fair indication that the money market has some confidence in his plans. Why this should be so derives from the outstanding success he and his partner Michael Morton have had with the Britannia Hotel in Manchester, from which the group gets its name.

This was once a cotton warehouse in the city centre. Langsam and Morton were business looking for something to develop as recession bit their business; so they bought it and transformed it into an amazingly successful hotel.

The Britannia's stunning decor and spectacularly elegant gold-leafed flying staircases give only a hint of what can be done putting a sound old building to rights. In the Adelphi's case, the basic raw material is even better.

Langsam believes that only relatively small, independent outsiders like Morton and himself can take on such tasks. He says that the big hotel and leisure groups would see the effort involved as a distorting diversion of resources and that such projects need entrepreneurs on the ground managing their own risk.

It is the ease of thinking that keeps the hotel staff on their toes and providing the service that people want to pay for. Langsam says that there is a touch of show-business involved. It is why there is a notice on the back of the door leading from staff areas into Britannia Hotel public spaces. It says: "Smile! You are about to go on stage."

IAN HAMILTON FAZEY

THE ARTS

Edinburgh Festival 1983

Vienna & Venice, Boston & Bali

Edinburgh's "Vienna 1900" theme is cleverly expounded in Peter Verger's witty, suggestive, and often hilarious, satirical play, "The National Museum of Antiquities", where the aesthetic character of solid bourgeois life — buildings, costumes, furniture, social manners — is illustrated as well as the radical reactions to it. At the Assembly Hall the Glasgow Citizens' Company plays Hofmannsthal's *Rosemarie*, a sophisticated classical drama, and *Les Femmes d'Alger* by Karl Kraus's angry *Last Days of Manhood*. The concert programme, as I remarked in an earlier report, is narrower and more partial, the conservative background is barely represented, and the repertoire is prompted — except for the fascinating Zemlinsky music — by the illustrations only by familiar works of the "second Vienna school".

Of these, Schoenberg's 1909 monodrama *Erwartung* — sung on Thursday by Rhylis Brynjolson with Claudio Abbado and the London Symphony — retains the greatest disorienting power. Written "at white heat", as they say, in a few days, it denies the listener any stable footing — no tonal basis, no symphonic plan, not even a clear dramatic structure. Its Expressionist heroine (who may or may not have murdered her lover, or may not come upon his corpse) wanders distraught, the orchestra heaving and shuddering with her, seethes obsessively, erupts.

Potent historicism by the soprano can indicate a direction for that lava-flow, but Miss Brynjolson's unshakable composure could not. Instead she offered an exquisitely musical line, refusing to force at climaxes, and left Abbado to weave the exotic musical fabric around her. He did that with the utmost refinement, illuminating many difficult passages, one was fascinated, if not gripped. The brilliantly thorough preparation might have been achieved at the expense of Beethoven's *Eroica* Symphony, which followed, but not the opening *Allegro* was not

only super-polished, but had a wonderful breadth and easy majesty that one had supposed a little of Abbado's intensive range. If his understated, March had matched the rest it would have been a great performance, and it was a memorable one anyway.

Scottish Opera gave a single performance of Britten's *Death in Venice* on Friday, in their co-production with the Geneva Grand Théâtre. Jean-Claude Maréchal's ingenious, byzantine machinery for shifting palaces and gondolas worked — well, like clockwork, though the King's Theatre allowed us too. More evocative, Mediterranean light was needed, and much subtler handling of the minor roles. Roderick Bryden's treatment of the score was over-bright and candid too, but it gathered power in the second half.

Bary More took the multiple agent-of-fate roles efficiently, representing the temptations of the East in different, but not dissimilar, guises. The music's opportunities he gets are not generous. The leading role of the haunted Greek Writer is more problematical: it was a great role, but the music's presence and gravity, restricted vocal means and precise musicianship, and Anthony Rolfe Johnson really qualifies only on the strength of his stage presence (unlike the music) presents Von Aschenbach far more simply than Thomas Mann's ironic original, and the producer François Rochat allowed Rolfe Johnson to seem from the start a choleric, self-important little man.

The result was to make him a ripe candidate for embarrassing self-discovery, and his passion for young Tadzio the passion of a shameful secret. That wasn't Mann's fate, but Rolfe Johnson's was. That Britten and Visconti — saw it differently again. (The reception of the opera was further hampered, I'm sure, by the fact that many of the audience had just seen on television news the Scottish Symphony, which followed, but not the opening *Allegro* was not

Exchange, an unsavoury business. Aschenbach's literary-philosophical ruminations around Tadzio in the novel are one thing, a stage-striding in clinging bathing costume, quite another. Britten's unhappy notion of ending Act I with an Apollonian vision of "Greek games" — dramatically inert — was realised here as a junior sports day. Not all Rolfe Johnson's intelligence, however, could make the opera's more elevated ambitions dominate.

In the Assembly Rooms there were gamelan performances from Bali, complete with charming dancers, and a few opaque tables in mime (a cheerful, wide-eyed horse was slain and magically revived). The music — sonorous, repetitive and ever-fresh — is not so many thousands of miles from John Cage's *Credo* in US, performed by the Boston Musica Viva in their Queen's Hall concert on Friday. Cage's ostinato games are arranged around contemporary tape snippets of European music (Dvorak this time, but the choice is left open); it is a bracing de-mythification, and was excellently played, and was transparent honesty, no half-lights, no pretensions.

In the final reckoning, however, Europe won, for Webern's brilliant reduction of Schoenberg's *Chamber Symphony* by Pierre Boulez carried splendid conviction. The American art-music (which Cage's isn't) brought from Boston was thin. John Zorn's *All Hallows* was a commendable academic product, thoroughly informed by good taste and educated resource, without any striking idea to communicate. Ellen Taaffe Zwilich's *Passages*, on two pieces by A. R. Ammons (bravely sung by Elia Charalambous), was much worse: crude chamber-music chucked with instrumental doublings, striving for declamatory — orchestral effects. How could a pupil of Carter Sessions and Elliott Carter produce such cack-handed stuff? DAVID MURRAY

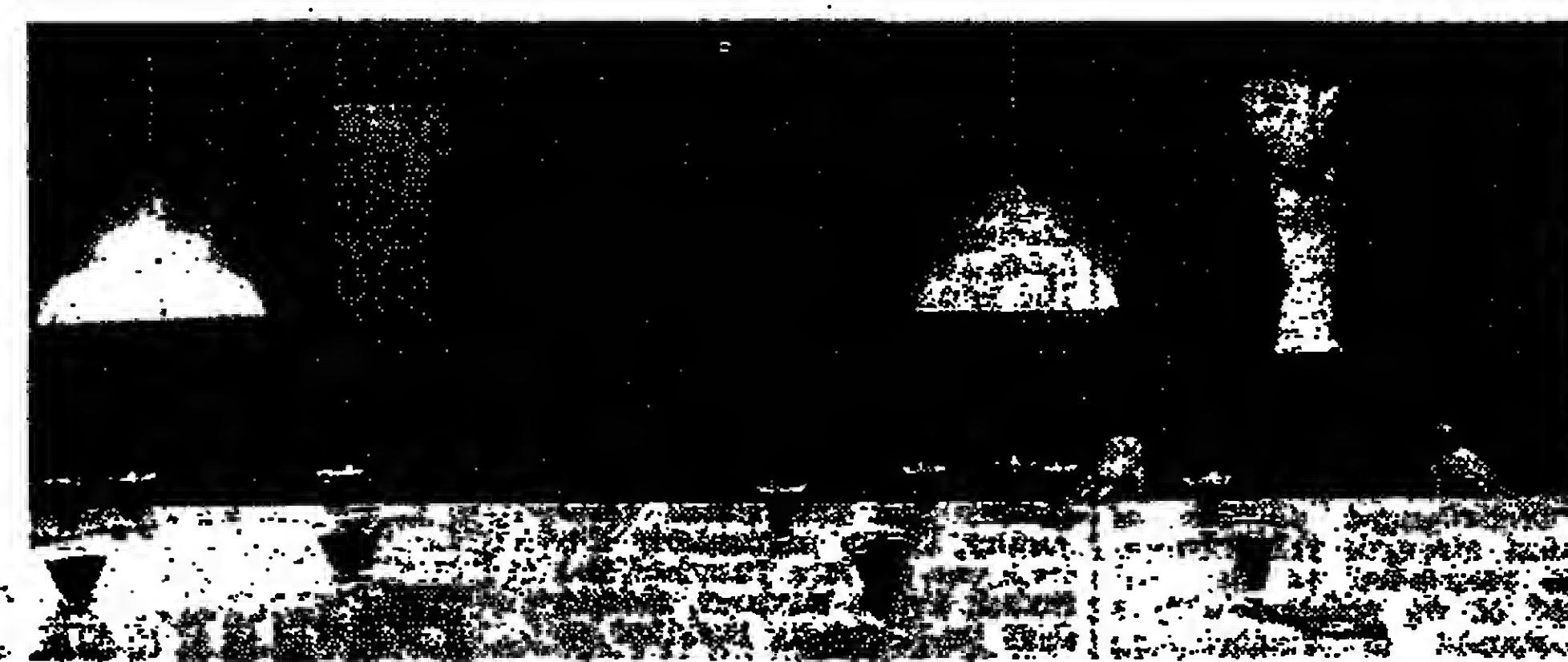
Hayward Annual Time has come round again, and this year the festival is kept by an event so swollen physically that it has spread across London to all the Arts Council's other principal showcase, the Serpentine Gallery in Kensington Gardens, and occupies something of the surrounding countryside and the terraces of the South Bank besides. Its subject is Sculpture, more particularly the work of some of the middle and younger generation of British sculptors.

It is a kind of federated anthology, for each of the three selectors — Paul de Monchaux and Kate Blacker (sculptors themselves and both showing their own work) and Fenella Critchton (who is a critic) — has invited 16 artists or so to take part. Between them they manage to leave out all senior artists, all those who established reputations in the 1940s or 1950s, and all those who are now or were once active and even flourish yet, but is visited upon such contemporary developments as the figurative and anthropomorphic symbolism of the 1960s.

There is nothing of St Martin's heavy metal, no weight-defying or space-involving painted steel and coloured fibreglass, nothing from the Stockwell Depot. Exclusion, moreover, is not entirely retrospective, though the artists continue active and even flourish yet, but is visited upon such contemporary developments as the figurative and anthropomorphic symbolism of the 1960s.

It is the received wisdom that the British are rather good at sculpture, and the reputation, in modern times at least, is good together undeserved. Certainly

Sculpture at large



Bill Calvert with light and glass sculpture at the Serpentine

ever since the last war our institutions have championed the work of our sculptors at home and the British Council has never ceased to promote the cause abroad. Major show has succeeded major show, with this simply the latest in what is sure to be a continuing series. But coming as it does at this moment, it is especially useful, for it gives us a view into a curiously shifting and various world.

What we see is an old order, not so much being challenged and replaced in simple revolution, but rather being broken up, turned over and recycled, peered into like the oracle, old oracles, rites and ancient practices revived and re-established. Displaying its wares

before us in the Park and by the River is the dissenting revisionist academy of the newly young; and we can detect two distinct strains, the one formal and principally engaged with material and technique, the other more directly engaged with idea and image. The distinction is one more of emphasis than actual separation.

From those three lists we can pick out a number of artists who, coming out of the art schools in the later 1960s, principally the Royal College and St Martin's itself, offered in their work alternative approaches to the narrower formal orthodoxy and practice of St Martin's. There was a renewed feeling for the direct manipulation of material, a growing

interest in the associative exploitation of discrete and disparate elements, and in the suggestion of incident and secret history as in the discovered conjunctions of an archaeological dig.

Above all, there was the minimal exposition of the sculptural idea or concept, towards disciplined but romantic and direct involvement in the landscape, and with the found, largely unworked but significant object.

From such general leads follow, for example, the remarkable revival of stone-carving on the one hand, and there are very many beautiful examples shown (Stephen Cox, Christine Angus, de Monchaux himself, Anne Nicholson), and the

direct employment of modelled clay, put to rather more obviously symbolic or surrealistic expression (Anish Kapoor, Shirazeh Houshyar, Judith Cowan); on the other the ad hoc and gleefully opportunistic response to found material, and its very, ironically or savagely surrealistic redeployment (Kate Blacker, Tony Cragg, Bill Woodrow, Richard Wentworth, David Mach with his ill-fated submarine).

The shadow of Richard Long falls long indeed over this company. His example, and that of artists like Barry Flanagan (who is not represented) and David Nash (who is), lies now not in their actual subject-matter so much as in their attitude towards it, their demonstration that anything at all may be used as the legitimate stuff of the artist. And these younger artists, no longer followers at all, have moved into, as it were, the later, the Baroque phase of Romantic Conceptualism in sculpture.

Their approach is not one of formal invention but rather of formal opportunism, taking things as they come, not developing an idea so much as exploiting its potential for variation. It is easy to see why their work should elicit so much of a response from the general audience, for it is, ironically, manifestly accessible and easy to read as it challenges that public's expectation of what sculpture should be.

It stands nevertheless in the tradition of those more elegant and charming manifestations, that caused such trouble in their turn, those stone circles, mud rings and lines of twigs.

WILLIAM PACKER

South Bank Summer Music

For the second week of South Bank Summer Music the Song-makers' Almanac presented a jazz concert, under the title of "War and Peace". Friday's at the Eltham Hall bore the additional appellation of "Reviewing the Troops", and presented a medley of predominantly First World War songs, including "The British Grenadiers" and "The British Grenadiers".

Then Holloway's "Review for four female voices and piano" was performed, a companion piece to Janáček's *Diary of One Who Disappeared*, and in that context it also toured on the Arts Council Contemporary Music Network. But in its own right it is a masterpiece of music-hall songs and poetry covered the same ground — the ideas and attitudes of the British during the First World War. The ground is retraced in a less obvious way in Holloway's work through a marvellous array of women's poetry left untranslated by the composer; its effect is more profound, of course, but lessened by having to put its audience through an already familiar set of emotional hoops.

It is still, however, one of Holloway's most successful and attractive vocal compositions. The quartet of female voices (as they are called) — Miriam Brown, Caroline Friend, Linda Hirst, and Patricia Taylor — is used with great imagination and skill — in solo, duet, and together, the piece is a masterpiece of vocal ensemble. Holloway's debt to and regard for Britten has never been more obvious than here; there are textures from *Grimes*, and in the piano and solo writing especially from *Winter Words*. But they are thoroughly integrated into an idiom that combines strikingly with lyrical poise, folk material with late Romantic

effusion. The whole concept is smoothly, seamlessly executed. ANDREW CLEMENTS

The main portion of the sole jazz concert of this year's South Bank Summer Music came from Canadian-born composer/arranger/pianist Gil Evans along with 13 British musicians, all but one of whom are on his 1965 album *Portrait of an American* "live" at Bradford earlier this year. On Friday at the Festival Hall they gave an almost uninterrupted 100-minute programme which closely followed the LP. At the end of the concert Evans' complex music was too often blurred and obscured by the hall's unsatisfactory sound arrangements. Too often balance and separation left too much to be desired, depriving the listener of full appreciation of the music's inner nuances.

Only occasionally did the rich, interesting textures of Evans' writing, such as the blending of flutes with bass clarinet, and passages for trombones and trumpets, and the stark telling employment of riffs, triumph. In the writing itself there were tantalising glimpses of motifs which might have been developed and enlarged but they never were. There was a curious lack of finish to most of the pieces which often were imperceptibly linked.

Curious too, on this occasion was the allocation of solos which resulted in Don Weller, one of the most volatile tenor sax soloists in Britain, having no solo part, and this not adequately heard in the hall.

With the reticent Evans on electric and acoustic piano, plus guitarist, electric bassist, and drummer there was a heavy rhythmic feel to all the compositions. If drummer John Marshall is singled out for mention it is because his con-

tribution throughout could not be faulted for its energy and dynamic appreciation. No doubt the concert will sound infinitely more satisfactory when broadcast on Capital Radio.

KEVIN HENRIQUES

Another of the themes running through this Summer Music has been the symphonies of Sibelius. Simon Rattle and the City of Birmingham Symphony Orchestra have presented the cycle in three concerts, and they closed the season (and also Mr Rattle's three-year tenure as its artistic director) on Sunday with the Fifth, Sixth and Seventh, presented in chronological order.

It was a splendid, inspiring experience. Flying visits to Birmingham in recent years have indicated that Rattle has been a most successful conductor with his orchestra, and that was amply confirmed in the Festival Hall. The CSO produced playing of a refinement and coherence that has not been bettered, and only rarely approached by other British orchestras this year. The strings, especially, were exceptional in their smoothness and dynamic range.

Rattle's way with Sibelius is not epic: even the fifth symphony was not whipped up to extraordinary maximum impact. It is, nevertheless, peculiarly exciting in its sureness and unerring ability to outline pertinent detail. The sixth was the most completely achieved in every respect, unfolded in measured tempo and exquisitely coloured. There were momentary flat spots in the Fifth — an unexpected slackening of tension at the horns' entry in the finale and an occasional lack of "middle" in thicker textures.

Minor imperfections only though, and completely swept aside in the uncompromising Seventh that ended the concert. The CSO strings showed no signs of flagging at the end of "middle" in thicker textures. Rattle's perception ensured that nothing was overlooked, and that nothing marred the work's cumulative effect.

ANDREW CLEMENTS

Agon/Covent Garden

Clement Crisp

On Saturday afternoon, between matinee and evening performances by the New York City Ballet, the London Ballet Circle was given a lecture-demonstration about Balanchine style as seen in his dancers' daily class, which was both brilliant and brilliantly illuminating. The speaker was Joseph Duell of NYCB; his "guinea-pigs" were Shawn Stevens and Peter Roal, both lately entered into the company — Miss Stevens last season, Mr Roal this — and both having aroused great interest at their graduation performances from the School of American Ballet.

Mr Duell, a fine classic dancer and a promising choreographer (*La Création du Monde* and *Swire No 1* were well worth watching) is still young, but old enough in school and company to have been taught by Balanchine. And, as his skilled analysis and demonstration showed, blessed with the intelligence to comprehend those qualities of energy and clarity, the purposeful and alert presentation of the body, that Balanchine demanded to give theatricality to the classical vocabulary. The simplest steps were shown to have an implicit power and brightness, an essential shape in line and dynamics that must be honoured.

The two young artists were beautiful advocates for the speed, elegance and harmony of their school; Mr Duell admirably spoke, demonstrated, instructed, and revealed why Balanchine's classic manner has such life, such physical passion in seeking the best from the dancer's body that nearly every other national dance style looks only half-awake.

This integrity of the Balanchine manner was to be seen in performances at the week's end, with Friday night's *Agon* still a bright vision of the future even after a quarter of a century. With Heather Watts and Mel Tomlinson very fine in the pas de deux, and a cast

vivid with the music's life, Agon glazes in its intense relationships with time and energy, like the balletic super-nova that it is. It also remains the most persuasive portrait of the company's style, the classic dance as Balanchine had shaped it within 15 years of his arrival in America, and it is astounding.

This same programme brought Balanchine's second portrait of Merrill Ashley — the first being of the young divinity who moved faster than the eye could see in *Ballo della Regina* in 1978. Made two years later, *Ballade* (using Fauré's score) takes this extraordinary virtuoso and, without diminishing her bravura, sets it in warmer and more tenderly — perhaps even capricious — vein. Miss Ashley drifts, floats, the clear and pure line of her dancing threading over the stage, and catching up her cavalier (the dazzling and the classic dancer who, establishing an atmosphere of emotion, lightly but piercingly simple. It is a seemingly simple ballet, but Balanchine's mastery is everywhere present — and so is Miss Ashley's).

On other performance, a self-portrait in this instance, must be mentioned: that of Kyra Nichols in *Piano Concerto No. 2* on Saturday afternoon. Miss Nichols dances her very role with an assurance, an undemonstratively well-rounded technique that combines amazing strength with lyric sweetness (Robbins' *Piano Pieces* offers a most charming portrait of a dancer in the Chalkovsky Piano Concerto she produced an interpretation of pure gold, serenely brilliant when the choreography demanded it, a ballerina-vision in the lovely second movement when she appears Aurora-like in her prince (the noble Sean Lavery), a true and dazzling artist at every moment because of her lucid and unaffected command of the dance. It was an angelic performance.

Great and Small/Vaudeville

Michael Coveney

It is extraordinary how theatre audiences, even in 1983, when confronted with a production a little different from the general run of the mill walk about — and often out — in high dudgeon. The media piles in behind sniffing the welcome smell of disaster. On tour, Rother Strauss's *Great and Small* has been subjected to this kind of treatment. It turns out to be a highly entertaining, imaginative series of perfectly comprehensible vignettes, about a disoriented woman fated to end up as a bag lady.

Who knows what it's like when people mumble to you on tube trains or at bus stops. It is clear from the opening scene that Glenda Jackson as Lotte is just such a person. She is on the phone in Morocco, phoning home, as it were, from the shopping precinct that is Agadir. After four years of marriage, she is on the brink of divorce. The play, translated from the German by David Edgar, proceeds not as a sociological case history, but as a brutally funny and sensual exploration of her plight.

It is certainly un-English in this respect, but not oppressively so. It is as if our friends who vacated the front stalls in the interval might have be-

lieved. Keith Hack's wonderfully confident production has a box of Perspex panels, designed by Voytek in which we see Lotte tracking down her journalist husband in a cheap, run-down apartment block, trying to make contact with an old school friend, visiting her brother in a brilliant scene of domestic disintegration by the sea, and clutching at her last straw in the most famous sequence, as a sexually exploited secretary to a ludicrous official in the Parks department.

Lotte's cry is both for help and privacy, and Miss Jackson's performance is a masterpiece of subtlety. She is on the edge of a nervous breakdown, a performance that goes right to the nerve centre of Strauss's pessimistic vision. Her qualities of subtlety, unfussy, and a sense of humour, are not — not to mention comic timing — have rarely been seen to better advantage.

What I like especially about the evening is its sureness of touch and sense of direction. The play, translated from the German by David Edgar, proceeds not as a sociological case history, but as a brutally funny and sensual exploration of her plight.

as a lascivious neighbour and languidly wealthy sister-in-law. In a remarkable street scene that closes the first half, Jeffrey Kinson as a balletically drunk Turkish immigrant and Brian Dawson as a whirling sailor transmit the hilarious horror of our inner city nightmare.

The play carries a truly poetic-dramatic weight. Scene changes are managed by a stage designer who has a sense of the rubbery heap, a failure in a society doomed to interminable bouts of leisure activity, mistakenly convinced she is one of the privileged club of 35 night-time men on the island, played together at any time. It is a desperate image of our time.

In a large subsidised house we would have all nodded wisely and conformed to the experience of a pigeon hole on the cultural bookshelf. To find this piece, and this production, in the commercial sector is both astonishing and encouraging.

Arts Guide

Music

PARIS

Worms Cathedral Choir conducted by Siegfried Köpfer. Leaps, Schütz, Mendelssohn, Bruckner (Mon 8.30 pm) St-Louis en l'île church.

Orchestre des Jeunes conducted by Jean-Marc Chabreau. Debussy, Strauss, Moniuska (Mon 8.30 pm) La Follie Assise.

One hour with Bartok by Alain Pâques, piano (Tue 8.30 pm) Townhall of the 5th Arrondissement.

Orchestre Quartet: Mozart, Stravinsky, Alfred Schnittke, Brahms (Wed 8.30 pm) Théâtre de la Ville, 41 bd de Temple, Métro République.

Orlando Quartet: Haydn's *Les Sept dernières paroles de Christ*, Jean Devaux (Thurs 8.30 pm) St-Severin church.

All these concerts are taking place in the framework of the Festival *Jeune de Paris*, tel: 871.570; sale of tickets: Mon to Sat 11 am to 7 pm, 14 rue François Miron, Métro Hôtel de Ville, tel: 271.5700 and Bateau-Mouches — Port de la Conférence, Port de la Seine, Métro Drouot, tel: 225.2253.

NEW YORK

New York Choral Society: Robert de Cormier conducts the New York Choral Society in a summer season of *Il Trovatore* (Fri 8.30 pm) Carnegie Hall, 57th & 5th Ave (873.6066).

Opera and Ballet

LONDON

English National Opera: Coliseum: the season opens with two ENO successes of the recent season — Anthony Asch's handsome Cavalier and Roundheads production of *Don Giovanni* — alongside Richard Van Allan, familiar in the title role, there are some interesting new casting ideas: Norman Bailey's first London *Leporello*, Suzanne Murphy as Anna, Marie Strogas as Elvira, Adrian Martin as Orléans — and the new world-famous Jonathan Miller version of *Rigoletto*, Verdi translated into a 1980s New York Mafia melodrama, with Mark Elder conducting, John Rawnley and Arthur Davies as hunchback-bartender and "Duke", and a new Gilda in Helen Field (883.8151).

Royal Opera House, Covent Garden: The New York City Ballet shows the finest classical dancing in the Western world with matinees on Wednesday and Saturday. Essential viewing. (240.1066).

WEST GERMANY

Berlin Deutsche Oper: Carpen is perfectly cast with Hilar Lorenz and Jose Carreras in the main roles. A de convincing through Julia Varady's brilliant soprano in the leading role. Lucia di Lammermoor, sung in Italian, is conducted by Carlo Franci. Faust's Verdammmung benefits from Kenneth Riegel in the title role.

August 26-Sept 1

HAMBURG

Hamburg Staatsoper: Madame Butterfly has Eugenia Moldovanu and Ernesto Veronelli.

Frankfurt Opera: Indiana Butterfly, with June Gard and Sappho Rouben, in *Isola*, conducted by the young American Judith Somogyi, stars Galina Savera, Marion Lescaut, Galina Savera, Marion Lescaut, and Sappho Rouben. *Isola* was revived triumphantly last season. Further performances are *The Magic Flute* and *Der Widerspenstigen Zähmung*.

Berlin Opera: Ballet *Eine Volkssage*, a German premiere, choreographed by Peter Schaub, is danced to music by Niels Wilhelm Gade and Johan Peter Hartmann. Soloists are Evgeny Erokhovets and Peter Schaub.

NEW YORK

New York City Opera: At Press time, the musicians strike continues, cancelling scheduled performances of *The Magic Flute*, *Tosca*, *Madame Butterfly*, *The Midway* and *La Rondine*, but worth checking (assuming the phone company's strike allows), New York State Theater, Lincoln Center (870.5570).

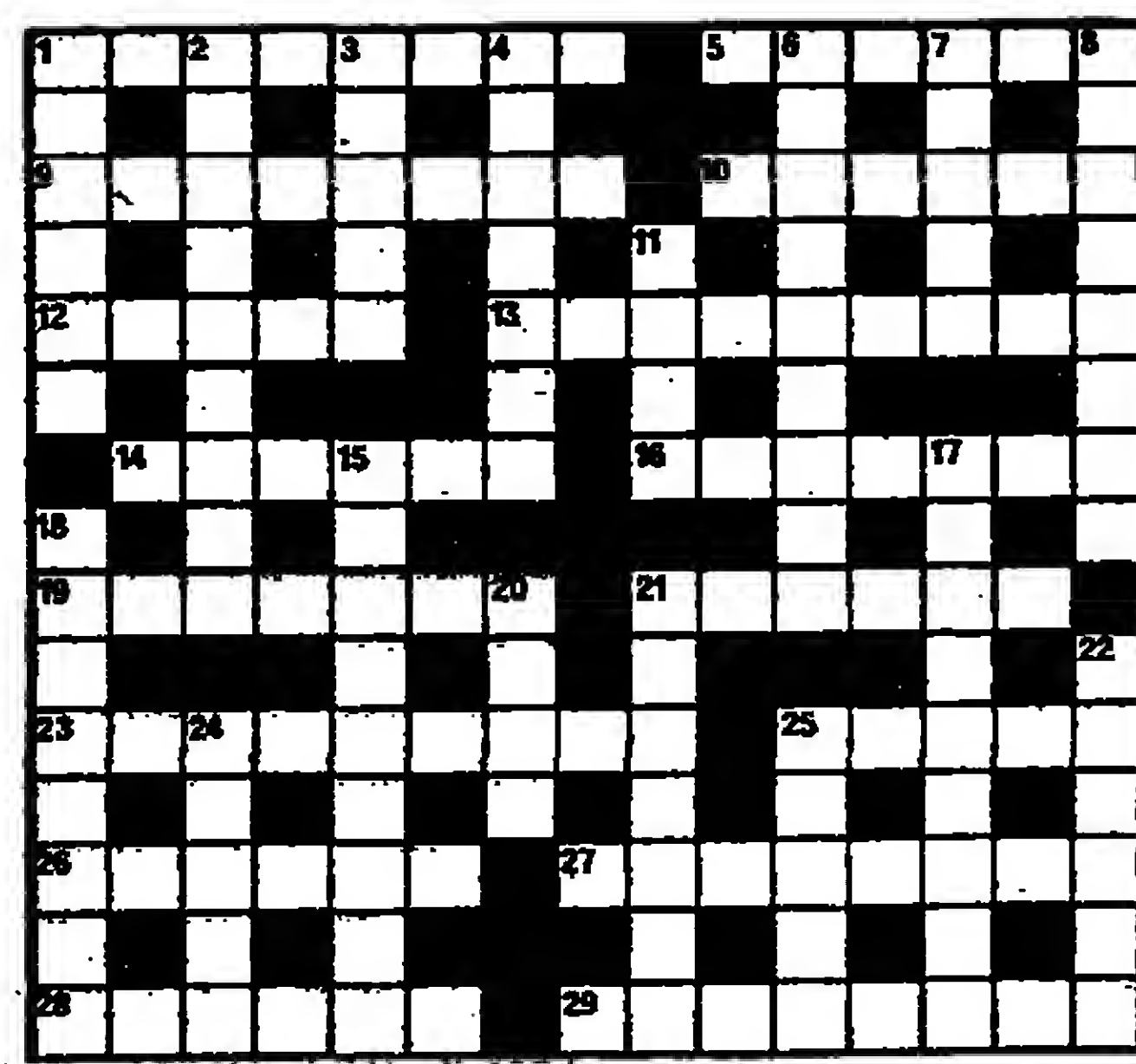
F.T. CROSSWORD PUZZLE No. 5203

ACROSS

- 1 and 5 Silver went after gold here (8, 6)
- 9 Note when the army order is given (4, 4)
- 10 Two chaps, one customer (6)
- 12 Calms and sends to sleep (5)
- 13 I'm beaten and confined (9)
- 14 Girl on the cricket-field is not a true member (3-5)
- 16 Possibly one ain't from a good school (7)
- 19 Miss tax when involved in painting (7)
- 21 Beast retiring with a broken toe (6)
- 23 Improving — using a reference book? (7, 2)
- 25 Love to have a tea break about five. Like an egg? (5)
- 26 I take road transport to America, he tried flying (6)
- 27 Aversion is stated another way (8)
- 28 In June the rates will be lower (6)
- 29 Didn't stay uninhabited (8)

DOWN

- 1 Visible remains of an ancient undertaking (6)
- 2 Record-making start to the student year? (9)
- 3 Grounds for development? (5)
- 4 Charging for a sign on pottery? (7)



6 Coach has to remain outside as required by law (9)

7 Bill free of bitterness? (5)

8 The sort of contest that goes on in the ring (4-4)

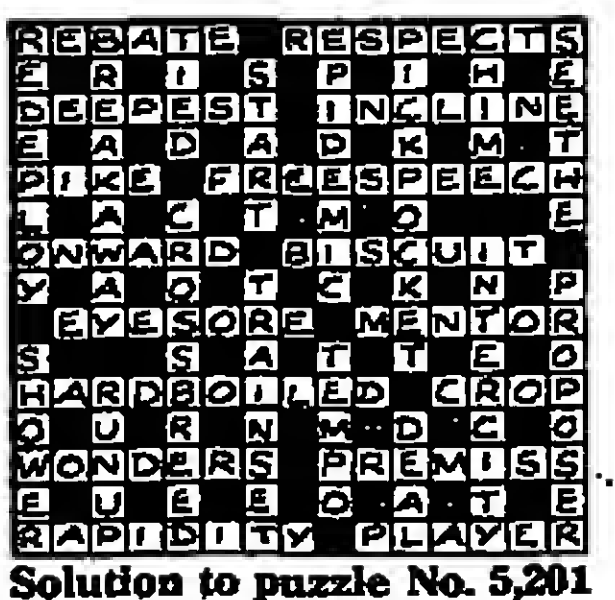
11 Seen in church when spring is over before Easter starts (4)

13 With us details can produce yearness (9)

17 Neither here nor there (2, 7)

18 One slum I refurbish — with this? (8)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.



Solution to puzzle No. 5201

International Property Review

Every Friday the Financial Times publishes a detailed review of the activities in the UK and international property markets.

Specialist FT writers look at the background to the week's headline making news, profile leading personalities and examine trends in the property development market.

FINANCIAL TIMES

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Tuesday August 30 1983

The Brazilian cliffhanger

THE TURNAROUND in the financial position of Mexico occurred with eye-opening speed. The country whose spree of spending and short-term borrowing triggered an acute problem for the world banking system a year ago is now heading for a small surplus in its current account after servicing \$850m of debt. Meanwhile Brazil, whose austerity programmes and whose apparently well-distributed profile of maturing debts were lauded last year in contrast to the Mexican excesses, is in arrears and at the centre of another critical phase for the international banks.

In Mexico's experience an object lesson for the Jeremiahs, and a source of hope for all? Does it show that re-scheduling coupled with a stiff shot of IMF medicine can produce results at surprising speed? Can Mexico back to normality, for Mexico has yet to restore itself to an adequate state of economic growth, but at least to the point where it is once again a bankable proposition?

Shrinkage

With hindsight it is clear that Mexico's problem was more amenable to a quick fix than that of Brazil and that the Mexican Government was more decisive in its approach to its debt crisis than its counterpart. Mexico's imports had shot up from \$7.5bn in 1978 to \$24.5bn in 1981. Those of Brazil progressed from \$15bn to \$24.5bn over the same period and had already been pared back to essentials by government restraint in the two years before its latest debt showdown.

There was thus a much greater depth of trouble to be blown off the top of Mexico's import bill. So far in 1983 Mexico's imports are down by no less than 60 per cent on the equivalent figure for last year, albeit at the cost of a pronounced shrinkage in the country's GNP.

Mexico's excessive dependence upon short-term debt—well over \$20bn was repayable within one year—produced the perverse benefit that it was easier to achieve a substantial measure of relief with a single large re-scheduling than it was for Brazil with its more extended profile of repayments due. Mexico was also slightly less reliant upon interbank deposits than Brazil for which this hidden source of vulnerability proved to be an Achilles heel.

The two Governments reacted to their debt crises in different ways. Bankers and central bankers praise the performance of the technocrats of the new

Mexican administration. From its unchallenged position of political strength this Government responded to the full extent of its problem with a combination of re-scheduling and economic austerity which, if anything, took too pessimistic a view of the trend of the world economy. The Brazilian Government, in contrast, was less willing to come clean about the true extent of its problem. It negotiated a poorly co-ordinated re-scheduling package that unravelled from the start.

Stability

These divergences between the two countries suggest that the banking turnaround will be a longer haul for Brazil. Re-payment of its debt does not come into question. The key to Brazil's financial stability—and to that of the international credit system—is that banks regain the confidence they need to renege Brazil's debt and allow a new IMF programme to be restored. Mexico's experience shows how the key to that banking confidence is the credible prospect of interest payment on existing debt.

Unlike Mexico, Brazil is still all too visibly unable to pay current interest except by increasing its debt. This year, Brazil's trade surplus will be around \$60m and insufficient to cover the roughly \$100m due in interest. Since loans are not flowing for the moment, pending agreement on a new IMF programme, Brazil is in arrears of perhaps \$70m. The current account is heading in the right direction, with the deficit—including interest—down from \$14.5bn last year to about \$7bn in this. But it looks as though Brazil will need the full three months of a new IMF programme to match Mexico's partial recovery—a period that will be greatly influenced by the development of U.S. interest rates and of world economic growth.

Rumours

In the meantime the prospect is for brinkmanship between Brazil on one hand and Western Governments, banks, central banks and the IMF/World Bank on the other. Plans for re-financing schemes will be advanced in the West. Rumours of impending moratorium will continue to rumble out of Brazil. But it will probably be through the crumbly influence of arrears that Western banks and official institutions will be forced to lend to Brazil at a rate just sufficient to carry its finances through to the point where they become self-supporting again.

Labour's not so lunatic fringe

THE TEMPTATION to write off the Labour Party, which has been strong since it lost the General Election in a landslide, is stronger than ever at the moment. The party has nothing from the lacklustre start to Mrs Thatcher's second term, its potential leaders are jockeying for position within the party rather than addressing the electorate outside, and some other luminaries are talking nonsense. When the cat's away, the mice will play.

Neutrality

This is altogether too complacent a view. Labour is still the major opposition party (especially when the Liberals fail to ingratiate) the Government's luck may not last forever, and it is still important to pay some attention to what Labour's leaders are saying in their serious moments. It may be safe enough to ignore Mr Ken Livingstone when his Irish sentiments carry his rhetoric away into lunacy, but not so safe to ignore Mr Scargill's attack on the Government's economic policy when he has seemed extreme statements from Mr Arthur Scargill or Mr Michael Meacher.

It is significant, for example, that Mr Neil Kinnock, Labour's pensive leader, has not disowned Mr Scargill's attack on Britain and the U.S. as memos to peace, though he has added the USSR to the list. The strong strain of neutralism in Labour's thinking has survived the election defeat—the retreat has been on anti-Europeanism, and on the commitment to massive public borrowing.

Neutrality was a vote-loser in June, when voters were still impressed by the resolute Falklands approach, and Mr Andropov was still sufficiently concerned with establishing his power base in Moscow to keep his peace offensive hesitant and muted. The mood could quickly change as his overtures become more persuasive, and as even Lord Carrington is moved to attack the British and Ameri-

can reluctance to negotiate seriously. Again, it is easy to dismiss Mr Michael Meacher's proposal for a national income ceiling as a thoughtless piece of party vote-catching; but again, he is only giving extreme expression to a strong strain in Labour thinking. Labour's so-called right-wing next is rather the wing that likes to win elections from time to time, by no means moderate in all things.

The old Crosland wing of the Labour Party—now divided between Labour and the Social Democrats—has always been strongly egalitarian, unabashedly in favour of high taxes on the rich, high social spending, opposed to the public schools, and latterly suspicious of the City.

Mr Roy Hattersley, with his attachment to minimum wage legislation and his call for direction of investment funds, is solidly in this tradition. If he does succeed in winning election as Mr Kinnock's deputy, the two are likely to find themselves in strong sympathy on a wide range of issues; that is why the hard left, which has never trusted Mr Kinnock, is trying so hard to lasso Mr Meacher as deputy and guardian of Conference decisions.

Experience

The hard left always has the itch to render Labour unelectable as it was in June, but it may lack either the power, or the inclination, or both, or it may even have learned something from this year's experience. In that case we will have a Labour Party which is uncomfortably egalitarian and neutralist, but a party which could still win an election if Conservative policies continue to produce disappointing results. The reflection in the polls of the expected slowdown in real incomes may before long remind us that Labour must still be listened to attentively.

The EEC Budget

Why Europe faces a financial crunch

David Tonge in London and Paul Cheesright in Brussels explain the importance of today's talks on reshaping the Community

When did the 1 per cent VAT limit become crucial? Only recently. In the 1970s it mattered little. In 1978, for instance, states paid in only 0.64 per cent of the VAT-assessed revenues. But next year the figure will be 0.97-0.98 per cent, according to the Commission's forecasts—and even closer to 1 per cent according to some Ministers. Both these forecasts rely on everything going according to plan. Large harvests or low world food prices are only two of the factors which could throw them out.

What can be done? There are two main avenues open. One is trimming expenditure, in particular on agricultural payments which make up the Community's own resources. This second avenue requires the approval of all national parliaments.

How is the Commission proposing to curb the soaring cost of the Common Agricultural Policy? Just before the EEC dispersed for August, the Commission put forward a 47-page paper of which the key elements were:

- Reducing price supports for each product once a certain level of output is reached. If milk producers exceed a specified quota they should pay a levy. For cereals the guarantee system would remain but prices would be brought more closely into line with those of competitors.
- Eliminating consumer subsidies and premiums. It singles out butter, beef and sheepmeat, programmes which at present particularly benefit Britain.
- Increasing protection against imports. In a proposal infuriating the U.S. the Commission suggests limiting the imports of cereal substitutes for animal feed; for example, the U.S. now

exports over \$430m a year of maize gluten feed to the Community. The Commission also proposes a consumption tax on oils and fats to help reduce the 5m tons of net imports of oil products each year.

Further, the Commission wants to cut imports of butter and sheepmeat from New Zealand and of beef from Argentina, Australia and Austria.

Fixing a timetable for dismantling the "monetary compensation amounts"—the system of payments used to even-out differences between Community farm prices expressed in Ecu and changing national parties following realignment in the European Monetary System.

The Commission believes these proposals could prune Ecu 2.5bn off agricultural spending in the 1984-85 marketing year and Ecu 3.2bn by 1988-89.

How have these proposals been greeted? Farmers think they are too radical and involve "forced economies". Food manufacturers, consumers and politicians in many countries think they are not radical enough and are inadequate to deal with surpluses.

Countries such as Britain argue that solutions should not be sought in hitting the Community's trading partners, such as the U.S. and New Zealand, and that the proposals risk extending to Mediterranean products the mistakes made with northern products such as butter and milk.

The abolition of the butter subsidy would increase the price of butter in Britain's shops by 14.3p per pound. CAP reform are on the table? The British, the Dutch and the Irish have all thrown ideas on the Common Agricultural Policy into the ring.

Britain argues that the EEC should establish a "given fraction" which would represent the upper limit for the growth of expenditure on the CAP as a proportion of growth of own resources. It would like the idea to be agreed in the forthcoming round of negotiations on the future financing of the Community and embodied in Community law.

Britain would also like agreement on annual procedures to establish, within this upper limit, the budget available each year for expenditure on agriculture.

The Dutch paper supports the idea of binding financial limits on agricultural expenditure, though it is less detailed. The Irish, major beneficiaries from the CAP, come out in defence of the existing system.

What else is on the table in these particular negotiations? Governments have to reach decisions on two other Commission proposals. The first, also tabled at the end of July, is to increase the effectiveness of the Community's structural funds—the Guidance Section of the European Agricultural Fund, the European Social Fund, and the Regional Development Fund.

These funds commit over Ecu 40m a year to help the poorer areas of the Community "converge" with the richer. The second is the proposal for an Integrated Mediterranean Programme to help farmers in Greece, Italy and a part of France.

Shouldn't the implications of Spanish and Portuguese accession also be considered? Yes, indeed the Commission argues that their accession will only be possible if the Community's own resources are increased.

When are they expected to enter? The earliest date now possible

is the beginning of 1986. France still has the most serious reservations—the French position is that the EEC must first settle its budgetary problems. Paris is also keen to ensure that its wine and fruit and vegetable producers will be protected.

If there are problems in controlling expenditure, what is the Commission proposing to increase revenue?

On May 8 the Commission proposed that the VAT ceiling be lifted to 1.4 per cent and procedures instituted for later increases if necessary. It also proposed that each country's contribution to the Community should be "modulated" that is, varied, taking account of factors such as the importance of the agricultural sector; this would reduce the increased burden on Britain and, to a lesser extent, West Germany.

How do member states stand on this? Britain long opposed any increase in the resources needed to finance the Community but in June Mrs Thatcher eased her position. Britain is now making an increased contribution on a fairer distribution of the burdens of membership and on an effective limitation of expenditure on agriculture.

Neither of these conditions are palatable to most of Britain's EEC partners, seven of whom, led by France, want an early jump in the Commission's resources. Any reduction in Britain's contributions means an increase in their bills.

Where agriculture is concerned, West Germany and the Netherlands have backed Britain on the need for reform but there are doubts in London about the Germans' current attitude.

What has happened to the "British problem"? It could be a major issue this winter. So far the Government has managed to win refunds of Ecu 1.175m for

1980, Ecu 1.410m for 1981 and Ecu 1.155m for 1982, reducing its net costs of EEC membership each year to respectively Ecu 337m, 9m, and 862m. For 1983 a figure of Ecu 750m has been set aside towards its expected net contribution of Ecu 1,900m.

However, Ecu 307m of the 1982 refund has still to be approved by the European Parliament, as does the Ecu 750m set aside for 1983. France and Italy have said that payment of the 1983 rebate depends on agreement being reached on how the Community will finance itself. Chancellor Helmut Kohl of West Germany has also linked these two issues.

How would Britain react if its partners refused to pay the refund for 1983 agreed at Stuttgart?

Badly. One possibility is that it might stop all payments to Brussels. This would be the first time a member has done so in such circumstances, though Britain has twice been on the brink of taking this extreme step over this issue.

What is Britain proposing on this front?

The Government has proposed the establishment of a "safety net" to ensure that no member state is again put in an unacceptable situation. The main element in this is the proposal of agreement on a sliding scale establishing the maximum net budgetary burden that any country should bear.

Countries with an average income per head lower than, say, 90 per cent of the EEC average would make no net contribution to the Community's coffers. The higher a country's prosperity is, the greater should be the share of its GDP it pays as its maximum net burden.

What has been the reaction to these proposals? The idea of the safety net has irritated the West German, the main paymaster of the Community, but received a dusty public answer from the French. The comment of M. Claude Cheysson, the French Foreign Minister, to Sir Geoffrey Hogg, the British Ambassador, was: "Of the 10 EEC countries, Britain is the only one yet to join the Community."

However, in private the French have talked of some thing achieving some of the effects of the "safety net", that is an "écarterment des soldes". That would involve major beneficiaries having the funds they receive lopped back, and major contributors having their burdens eased.

What are the chances of an overall agreement this year? Very limited. The Stuttgart summit agreed that matters should be wrapped up at the Athens European Council in December, but most members think the complexity of the issues mean that agreement is unlikely before the French take over the EEC presidency in January; the EEC March summit is seen as critical.

Optimists argue that all countries now know the issues so well that prospects for agreements have improved. The pessimists fear that the EEC is not running out of funds fast enough to concentrate on this autumn's summit. Most seasoned Community watchers expect a rough time ahead. One EEC official, remembering Mrs Thatcher's forceful debut in 1979, comments: "The Athens summit will make the Dublin one look like a family picnic."

Men & Matters

Hall-mark

Tycoons hoping to cut a dash in Peking may like to know about the Chinese capital's choicest spot for business entertaining—the Great Hall of the People. Where other capital cities might give you a stuffy dinner if you tried to use the House of Lords for a buffet supper or the White House for a working breakfast, China is happily and profitably renting out the imposing hall for large-scale formal banquets.

Latest to use the Hall is Hong Kong conglomerate Hui Yee Whampoa, cracking open a few bottles of Maotai last week to celebrate a successful corporate climb up the 25,000 foot Mount Moutagata in Kiang Province.

I am also told, if you insist on a taste of the town's amorous rather than the culinary, that the Great Hall of the People is also available for weddings and similar functions. Try that in the House of Lords.

Chair-lift

Now that the Mexican Government has announced its \$200m competition for Bancomer, the country's largest bank, which was nationalised a year ago, Manuel Espinoza Tzuc, the former chairman, is hoping to get back his desk. Don Manuel, as he is called, was the major shareholder in Bancomer. He built up the bank from scratch into an enormous financial empire. The \$14bn in assets, 800 branches, including offices in the world's major financial centres, and equity stakes in numerous companies. But it was the loss of his desk and a priceless collection of pre-Colombian figurines, kept in his office where he also had a music, which caused him the most distress. Don Manuel 74, was sentimentally attached to the desk because he had used it all his banking life.

When Jose Lopez Portillo, Mexico's last President, took

over the banks in a desperate bid to retrieve the desk, a police guard was put on the banks.

The new chairman of Bancomer, Ernesto Fernandez Hurtado, a former head of the Bank of Mexico and uncle to President Miguel de la Madrid, does not like to use the desk or Don Manuel's chair. When Fernandez Hurtado, who was privately against the nationalisation, received visitors in his office he asked them to sit in "Don Manuel's chair" in a symbolic gesture of respect. He now hopes to return the chair and maybe the figurines.

Weather glass

Another example of how computers are promoting labour flexibility—this time from Merseyside.

The control room at Pilkington's new float glass plant at St Helens has a visual display unit keyed into sensors measuring the outside air temperature.

When this falls below a certain level, a Christmas tree appears on the screen, together with a top-hatted snowman and electronic snowflakes. This is followed by an electronically punched-out request to process workers to take out a truck and grit the roads around the plant. Of course, it has not been tested yet.

Marriage lines

Spare a thought this morning for Singapore's unmarried women graduates. Having dutifully pursued their careers to help build a better Singapore, they are suddenly facing official pressure to marry and have children.

Prime Minister Lee Kuan Yew, himself a Cambridge-educated lawyer, started the campaign by voicing concern about the high proportion of

women graduates who remain single. This, along with the tendency of the less-educated to have a lot of children, he said, meant that "levels of competence will decline, our economy will falter, and society will decline."

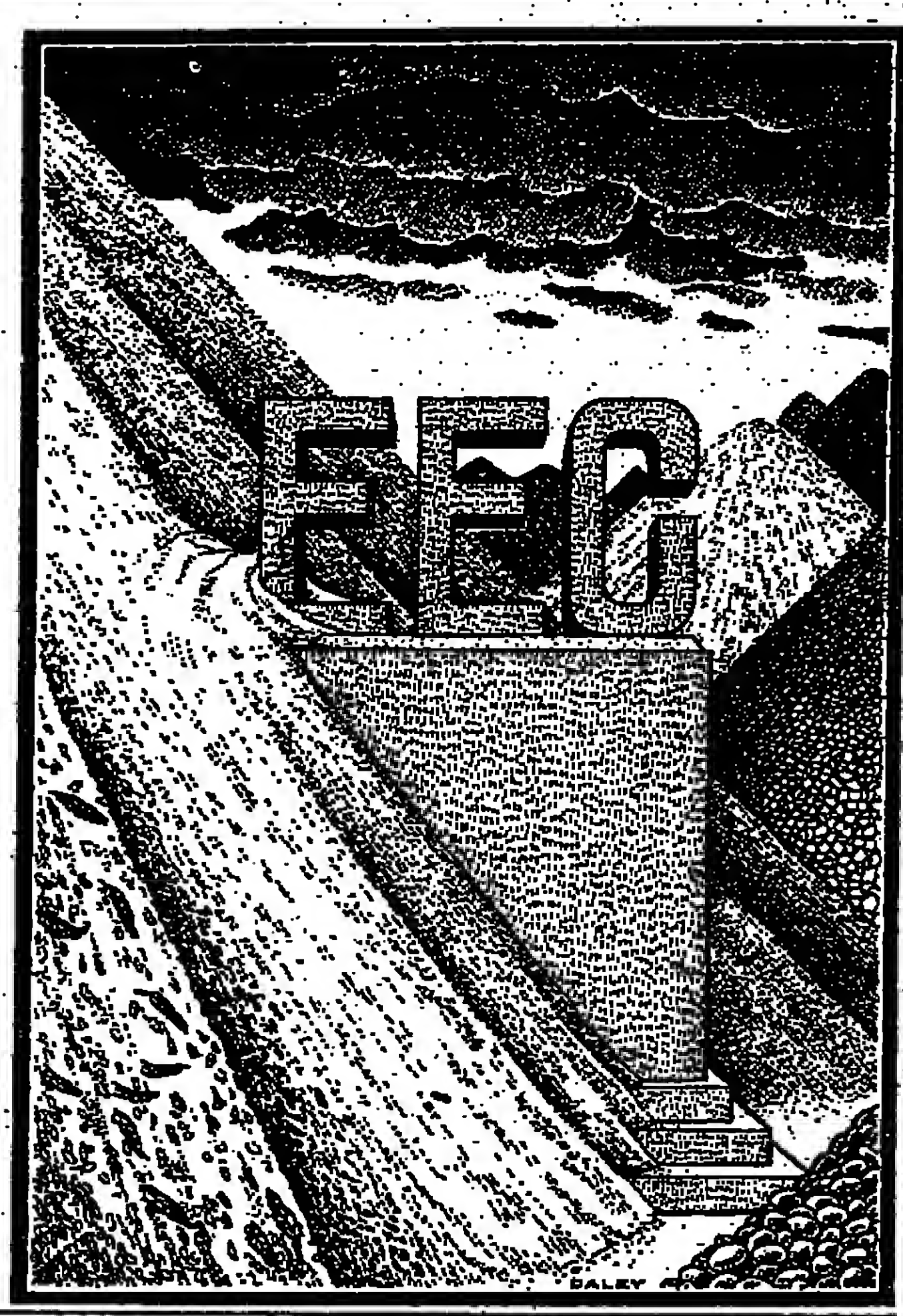
Taking its cue, the pro-Government local press has since featured supportive articles almost daily on the nature/nurture question. "But," he so-called "Great Marriage Debate" took a fresh turn over the weekend, when Dr Goh Keng Swee, Deputy Premier, and acknowledged architect of Singapore's "economic miracle" said the Government wanted to buy a Japanese software package which could match women graduates with husbands so that they could produce children able to secure better results at school.

All this has aroused plenty of controversy among the city state's 2.5m population. But Lee and his Government are plainly in earnest. The next step could be a batch of economic incentives modifying the present family planning policy, which discourages parents from having more than two children.

Winning system

A team from Rediffusion Radio Systems, which earlier this year won the FT-sponsored UK national management game, has gone on to become the European champion.

Seven teams out of an original field of 1,700—competed in the finals held at the 13th century Schloss Gracht, Cologne, home of the internationally-known management training school USW. Holland, Denmark and Sweden were eliminated in the semi-final and the Rediffusion side—Mike Harwood, Len Porter, Don Collishaw, Ron Norwood and Hugh Woolley—contested the final round against teams from Germany, Finland, and the Irish Republic, winner of the last two championships.



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Observer

The extraordinary story of the collapse of Banco Ambrosiano is told in a book by Rupert Cornwell, the FT's Rome Correspondent, to be published this week. In the first extract he describes...

The Bank of Italy v Calvi

Rupert Cornwell

THE BANK of Italy is a most remarkable institution. Visitors should not be misled by the row of tall palm trees outside, which lead an oriental flavour to the heavy nineteenth-century of its headquarters and muffle the din of the traffic on the Via Nazionale. The central bank is arguably the most professional and West-Europeanised part of the apparatus of the Italian State. To foreigners, indeed, it has often seemed the Italian State.

If the Bank of Italy is flatteringly perceived abroad, its passage as home is no less. Its authority seems not merely from the breadth of its powers, but from its evident neutrality and independence, and aloofness from the political fray. And nowhere are the powers broader, yet more carefully to be exerted, than in the Bank's duty of supervising the domestic banking system.

In statistical terms alone the task is daunting. The central bank presides over a vast array of no less than 1,000 individual banks. They range in size from internationally known institutions like the Banco Commerciale di Credito Italiano, controlling funds of \$25,000m or more, to the tiniest *banche di piazza*, which centuries ago had started life as a pawnbroker's, and today might boast a single branch in a small town.

All of them, though, have to comply with strict regulations imposed by the Bank of Italy. To ensure that they do so, the Bank's vigilance, or supervisory department, will carry out up to 150 inspections annually, meaning that every bank, large or small, will have its books gone through every seven or eight years.

But from the mid-1980s on the job acquired an added political sensitivity. The banks were becoming sources of finance, above and below board, for the political parties; especially the Christian Democrats, but later, as Ambrosiano showed, for other parties as well.

The banks, moreover, would help finance the rival empires built in those years by politically sponsored industrialists. It was the era of Italy's "economic miracle", in which hundreds of

billions of lire were spent on large new plants, by flamboyant figures like Nino Rovelli of SIR and Raffaele Orsini of Liquichimica. All was paid for by cheap loans from the State, channelled through a compliant banking system.

As the parties' appetite for funds increased to finance their ever more unwieldy machinery of patronage, so did political interference in Italy's entire economic system. A master of the process was Eugenio Cefis from ENI, with his coup d'état at Montedison; but later others like Licio Gelli and Michele Sindona, a newly formed accommodation Monetary System in 1978 was universally praised. Cefis, in short, was everyone's idea of a central bank governor. Except that, for the politicians for whom he had little time.

Under him, and in charge of the supervisory department, was Mario Sarcinelli. His career, too, had been exceptional. Sarcinelli had joined the central bank in 1957 at the age of 23, with a special scholarship. He served in the department for 15 years, the traditional nursery for potential high-flyers. By the time he was 38, he had been promoted to the rank of director, with responsibilities on the supervisory side.

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one day for Governor himself. Italy by 1978 was on the way back to economic health, at least by its own standards. An important contributory factor was the tight credit policy enforced by the Bank and Baffa's lack of sympathy for the industrialists who, with the aid of the political patrons, had prospered on the State's largesse.

Requests for funds, so readily available in the past, were coldly met and chief among the victims of the stern nouveau régime was the chemical industry, bloated by the likes of Sir Licio Gelli and Michele Sindona, a newly formed accommodation Monetary System in 1978 was universally praised. Cefis, in short, was everyone's idea of a central bank governor. Except that, for the politicians for whom he had little time.

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Sarcinelli discussed with Giulio Padellaro, the chief inspector up in Milan, the idea of sending reinforcements from other divisions of the central bank. In the event, much requested information on Calvi's foreign subsidiaries was simply not forthcoming. Calvi claimed that to have done so would have been to breach the banking regulations of other countries. The argument was hardly convincing. Calvi was after all chairman of both the Milan parent and of the two subsidiaries which aroused most suspicion, Banco Ambrosiano Holding in Luxembourg and Calvi Overseas in Nassau, but there was nothing at the time to be done. In the teeth of such obstacles it was not until November 17 1978, seven

months later, that the job was complete. The language of the Bank of Italy's report on Banco Ambrosiano was dull and bureaucratic, and its length, including 26 appendices, ran to over 500 pages. What was exceptional was the quality of its financial detective work—where had they gone? The inspectors recorded their clues. On the board of the Nassau bank sat not only Calvi but Archbishop Paul Marcinkus, chairman of the IOR, which Carlo Oligati, Ambrosiano's general manager, had told them was the owner of Suprafin. Now Suprafin had been the mysterious buyer of 15 per cent of Banco Ambrosiano's shares between 1974 and 1977. These shares had in turn been dispatched to that clutch of Liechtenstein and Panamanian companies, with names like Casacchi and Orto.

What the inspectors could not prove was that these fanciful creatures were the property of either Ambrosiano or of the IOR, but they certainly had their suspicions. The growth of the mysterious assets in Nassau might not be unconnected with the massive purchases of Ambrosiano shares.

Any technical judgment on the soundness of Ambrosiano was impossible without greater detail of the operations in Luxembourg and Nassau, the nature of whose assets remained a mystery. These assets in turn were so substantial that any discrepancy might make a large difference.

Given a central bank's taste for caution and understatement, it was a harsh assessment. Even more damning was the recommendation of the inspectors: "There is a clear need to cut back the network of subsidiaries which Ambrosiano has created abroad. They must also be forced to provide more information and figures about their real assets, to avoid the risk that a possible liquidity crisis in their part might also affect the Italian banks, with all the unfavourable consequences that might ensue."

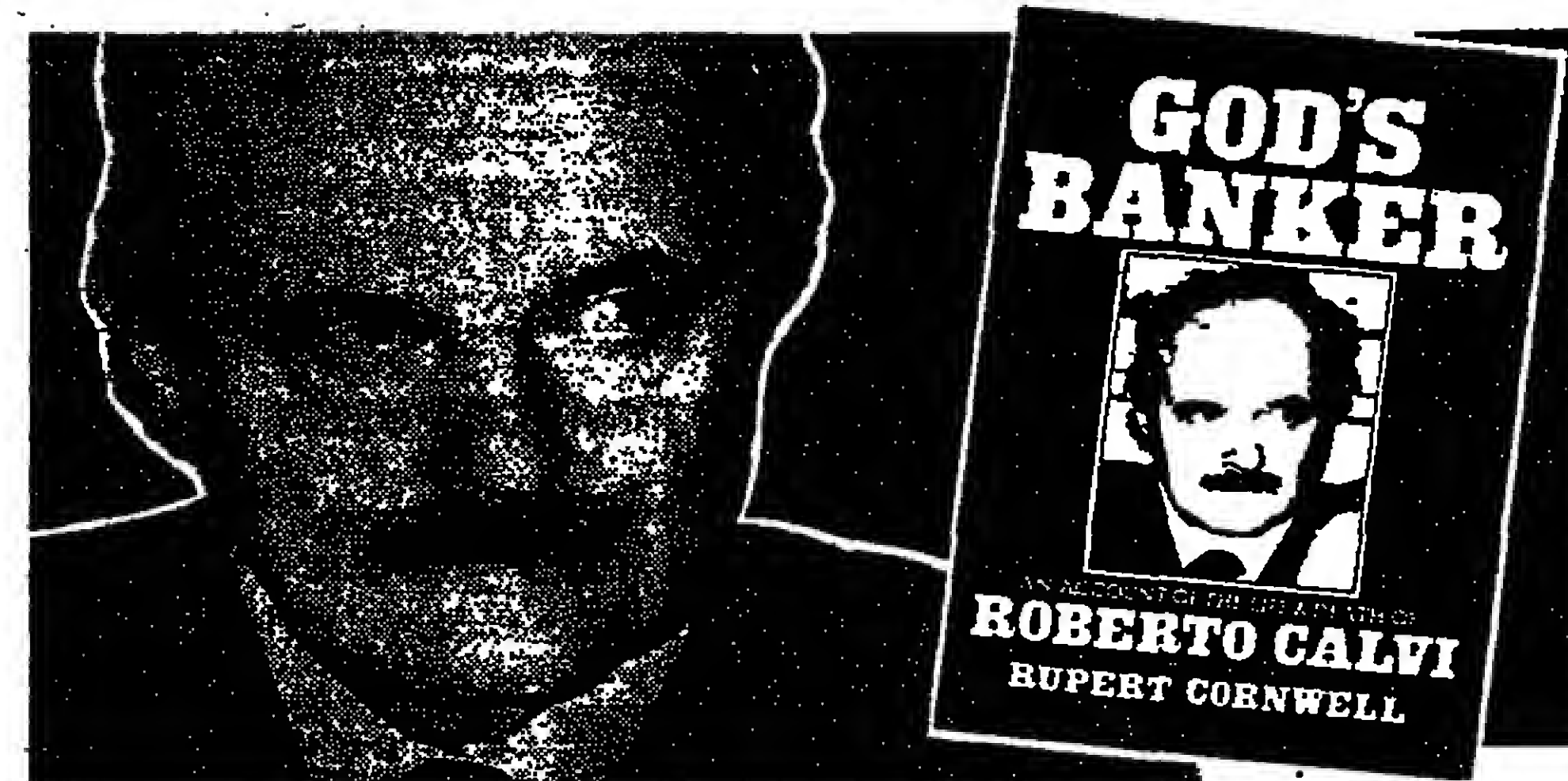
On Saturday March 24, 1979, calamity overtook the Bank of Italy. In the middle of the morning officers of the Guardia di Finanza, the country's financial and customs police, entered the central bank to arrest Sarcinelli. The deputy general manager of the Bank of Italy was taken to the Regina Coeli (Queen of Heaven) prison on the bank of the Tiber in central Rome, charged with deliberately concealing evidence from Rome magistrates investigating the collapse of the now bankrupt SIR of Nino Rovelli. A similar charge was brought against the Governor himself.

The "Bank of Italy Affair" had begun and no episode before or since has illustrated more clearly the sinister side of public life in Italy. The report then went on to point a heavy finger at the mechanism of the fraud Calvi was elaborating. It identified the crucial chain of command, from Milan, through the Banca del Gottardo in Lugano, to the key—Calvi Overseas in Nassau. Now Calvi had borrowed more than \$200m from Banco Ambrosiano in Milan. On the other side of its balance sheet were \$183m of assets described only as unspecified "financing" but where had they gone? The inspectors recorded their clues. On the board of the Nassau bank sat not only Calvi but Archbishop Paul Marcinkus, chairman of the IOR, which Carlo Oligati, Ambrosiano's general manager, had told them was the owner of Suprafin. Now Suprafin had been the mysterious buyer of 15 per cent of Banco Ambrosiano's shares between 1974 and 1977. These shares had in turn been dispatched to that clutch of Liechtenstein and Panamanian companies, with names like Casacchi and Orto.

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—in other words, that Banco Ambrosiano had lent money to Calvi to buy in effect, control of itself. At another point, the report remarks that "it cannot be excluded" that the Liechtenstein and Panamanian companies were part of the Ambrosiano group. As for the IOR, the Vatican bank said it had only 1.37 per cent of Banco Ambrosiano. But again, it "could not be excluded" that it owned more, in the person of the Panamanian companies which had bought such large blocks of Banco Ambrosiano, with the express blessing of Calvi, and on Calvi's board, of course, sat Archbishop Marcinkus of the IOR.

But there was more. The inspectors judged Ambrosiano to be under-capitalised. They found breaches of the banking law, and severe organisational shortcomings—principally that Calvi was running Ambrosiano as he pleased. Board meetings did take place once a month, as prescribed by Ambrosiano's statutes; but mainly to endorse decisions which Calvi had taken, and often implemented, beforehand.

They must have been remarkable occasions, rather like a priest celebrating mass. Calvi would deliver a brief sermon, to which the other directors would reply with a respectful Amen. A 20-minute monologue by the chairman would typically be followed by a rapid run-through of the major credit extended by the bank in the previous month. Calvi routinely would enquire if there were any questions. Invariably there were none, and proceedings were over. The report condemned the board for its "supine acquiescence" while Ambrosiano's official auditors were described as "superficial and unquestioning."

The central bank's conclusion was that Ambrosiano's internal organisation was in some respects "patently inadequate"

for a bank of its size and ambition. The inspectors suggested that "a first step" might be to withdraw authorisations so far granted, and thus force a restructuring of Calvi's bank. "So that the real destination of every single financial transaction abroad can be followed." The restructuring, of course, never took place.

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the latest series of challenges to the complicity and financial convenience of the system, which could not go unanswered. Objectively the campaign of Baffa and Sarcinelli to throw light on the dark corners of Italian banking could not be faulted. Realistically, however, to have tried to do so without adequate political "cover" beforehand was perhaps naive and inviting reprisal. Not just its timing, but the sheer disproportion between the imprisonment order and the dubious, highly technical nature of the supposed offence suggested that Sarcinelli was being deliberately punished.

Sarcinelli was to leave prison a fortnight later, hurt and confused, but already suspicious of the origin of the attack. In Milan the word was going around that Calvi in some way was connected with the attack on the central bank; while Sindona from New York was soon boasting that he had secured his revenge on the institution responsible for his persecution and downfall. Even after his release, the magistrates remained opposed to Sarcinelli's reinstatement.

With Sarcinelli's removal, the vigilance lost many of its teeth and some of its nerve. In June he was allowed to resume his post at the Bank of Italy, but had been moved by then to the harmless—as far as the politicians were concerned—international monetary side. Only in January 1980 was the slate rubbed clean, when the charges against both Baffa and himself were dismissed for the trumped-up nonsense they were. But by then the desired effect had long been achieved—and a new Governor had taken over from Baffa.

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An account of the Life and Death of Roberto Calvi by Rupert Cornwell, to be published by Victor Gollancz on September 1, price £8.95.
A second extract will be published in Thursday's FT.

Letters to the Editor

Japanese way with companies

From the PA Consulting Group
Sir—The article (August 22) by Christopher Lorenz on Dr Trevor's new book about Japanese companies' management difficulties in Europe makes fascinating reading.

Fascinating for two reasons. The first is that anyone who has worked in Japan knows that European multinationals working there are criticised for exactly the same faults. There is probably little to choose between Japanese and European companies when operating in each other's countries—although it might be argued that European multinationals, with their greater experience of overseas operations, should be better than their Japanese counterparts when it comes to integrating national staff.

Council house sales to tenants

From the Director of Finance, Copeland Borough Council

Sir—Your correspondent Miss B. North (August 23) is, perhaps, more correct than she realises in stating that "selling houses to tenants is a huge and complicated subject."

She advises Mr Cole to do a little research into the case he will find the benefits to the ratepayer of selling as many council houses as possible. In fact, anyone doing such research will discover that in many places the ratepayer will not benefit one iota. There are many councils where the council housing service is completely self-financing, with no subsidy from the ratepayer or taxpayer, and has been so for years. According to the CIPFA "finance and general statistics 1983/84" no less than 65 Councils are this year using surpluses on their housing services to subsidise their ratepayers. In some cases this is undoubtedly due to council house sales, but not in all.

This exemplifies the wide disparity between the circumstances of different areas, which applies not only in the field of council housing but over a wide range of services. Is it any wonder, therefore, that local government is opposing the efforts of the central government to increase its control and impose greater

uniformity of financial treatment over local authorities? The sale of council houses is not a subject on which sweeping generalisations can be made. Each council has different circumstances, and what applies to one will not apply to all.

This is yet another illustration of the increasingly prevalent view that politicians and bureaucrats, with their threats of dire economic consequences if Japan doesn't see the line, are the only people who can contain the Japanese industrial advance. Public pronouncements by politicians have had predictable consequences. Sections of European industry have become complacent and hardly accept any more that their own

Strength in numbers

From Mr Kevin d'Arcy

Sir—Isabel Alvarez of Abbey Court (August 23) and any others who are suffering unduly from excessive increases in service charges or flat leaseholders, take cheer. Here, at Dunstan House, we suffered as badly with a five-fold increase in services charges in about as many years. The charge for management services then was much more than was spent on the block. True, our landlords were slow to help at first. But we found that these agents, on behalf of these landlords, had been doing the same all over London. So we formed a residents' association and simply went on strike.

We paid our ground rents, to prevent eviction, then offered to pay the same service charge as before, plus 10 per cent for inflation. Finally, the landlords helped us out by appointing a fresh new firm of agents, who have promised to keep their management charge at a ratio

of monies spent on the block, at the moment 15 per cent. The lesson: strength in numbers. Kevin d'Arcy, 8 Dunstan House, Stepney Green, London, E1.

World-wide black economy
From Mr N. Ridley
Sir—In your leading article (August 20) you express concern that the total recorded imports of the world seem likely this year to exceed its total recorded exports by the sum of \$100bn: is something like 6 per cent of total world trade has vanished down some statistical black-hole.

Times may have altered, but when I was a lad this country recorded its imports for statistical purposes on a CIF basis, and exports on a FOB basis: a system calculated to show the balance of trade in the most unfavourable light possible. As you say later in your article, when official statistics are revised they usually look a good deal better—probably because like has been compared with like.

If we still adopt the same system, and other countries do likewise, probably a good part of the 6 per cent discrepancy can be attributed to this reason, and things are not quite so bad as they appear to be at first. N. Ridley, Appleford, Sunnyside Close, Lancaster.

M1, an erratic statistic

From Mr A. M. Sultan

Sir—As an importer—yes, I dare to admit it—I have to monitor the currency market closely, especially the U.S. dollar.

It is apparent to me that the continued weakening of the dollar against the European currencies results from two factors:

Firstly, a simple band-wagon effect, perpetuated by those that know no better, and secondly, and far more importantly, due to the myopia and naivety of certain gentlemen, either in the Fed, or in other spheres of U.S. political life, who are treating a country's entire monetary policies ("country" being synonymous with "the world") in the case of the U.S.) on an erratic statistic, namely M1.

This would not be such a major crime, if its shortcomings were appreciated, and it were considered in addition to the problem of actually physically compiling such a statistic for the U.S.'s financial levitations.

Yes, M1 is a good statistic ("statistic" being the key word), when it stands back a period of time—but to base one's policies on the inaccuracies of one week's figures is ludicrous.

What will happen a few weeks hence, when some other factor comes to light, previously ignored in the published figures?

Will we then suddenly realise that we've been acting unwisely contrary to our own interests? You can't throw the dirty bathwater out of the window and catch it the following day.

The problem of which "M" to watch has been well documented by many eminent economists, representing the whole spectrum of economic persuasions. They may not agree on which "M" (or "M") to elect as their guardian angel, but I doubt that any one of them would condone any decisions based on statistics compiled on the shortest of time scales.

Surely it is about time that people realised the sheer stupidity of making decisions based on such a weekly published aggregate as M1.

A. M. Sultan, 6 Daglesford Road, Cheddle, Cheshire.



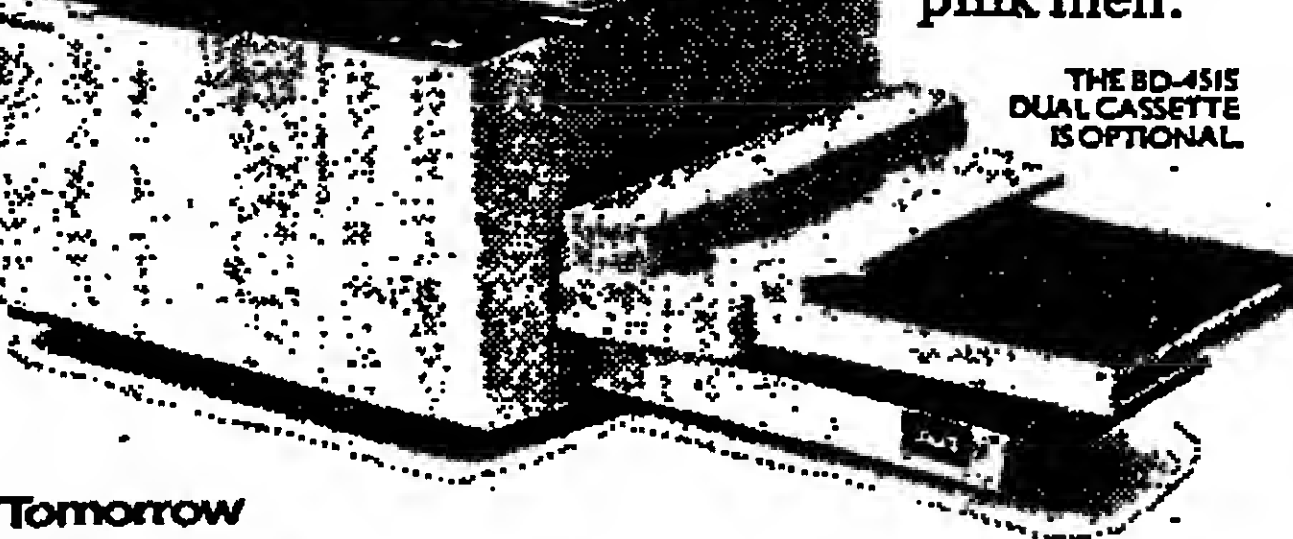
The new Toshiba BD4515 copier is so reliable there's one part that never seems to do anything.

On every Toshiba BD4515 copier, there's a little pink man who lights up if ever the copier should break down. But it's very doubtful that you'll ever see him leap into action. There he sits, on the LCD colour display panel. The LCD panel is a device Toshiba actually pioneered, though it's fast becoming standard on other copiers. (We find it flattering that others choose to copy our copiers). Every function of the machine is clearly indicated by little signs on the LCD panel lighting up. So you always know what the copier is doing. However, the LCD panel isn't the only feature

that makes the BD4515 copier easy to operate. There's an enlargement and two-way reduction capability as well as a facility to print business cards. Not to mention the automatic exposure control, which ensures you don't get copies that are either too dark or too light.

Which is all very impressive when you consider that it's just a desktop size copier. But then, such innovation has made Toshiba a leader in all fields of electronics, and energy.

And of course, little pink men.



In Touch with Tomorrow

TOSHIBA

For further information on the Toshiba Copier range, visit Office Equipment Ltd., Watford Rd., Watlington, Oxfordshire, or Toshiba (UK) Ltd., Watlington, Oxfordshire, or Toshiba (UK) Ltd., Watlington, Oxfordshire.



SENIOR MINISTERS MEET TO DECIDE FINANCE POLICY

EEC crisis talks on bankruptcy

BY JOHN WYLES IN BRUSSELS

AN UNPRECEDENTED August gathering of 30 senior EEC Ministers will open a period of intensive negotiations in Brussels today designed to save the Community from bankruptcy and from further endless battles over how it should be financed.

Meeting on the instructions of the Stuttgart summit of heads of government in June, the foreign, finance and agriculture ministers from the 10 member states have very different appetites for the task which lies ahead.

Delegations are predictably divided on some of the key issues — especially how to curb the spending on the Common Agricultural Policy (CAP) — but there are also differences between ministers in the same governments on how some of the key problems should be tackled.

As a result today's exercise will be more a "necessary warning exercise" — as one senior EEC official put it yesterday — than a serious negotiation.

The formal burden imposed by Stuttgart is to prepare a package of draft agreements for completion at



Dr. Gerhard Stoltenberg

the next summit in Athens in December. These are supposed to provide stronger controls on farm spending, permanent limits on Britain's budget payments to Brussels, a raising of the ceiling on the Community's budget revenues and the tailoring of policies better suited to an EEC membership to be enlarged to include Spain and Portugal.

Today's meeting will focus almost

entirely on the European Commission's proposals for sapping the CAP's appetite for funds. Current farm spending is more than 30 per cent above last year's level, and has taken the Community to within around £37m (\$40.7m) of spending all its available cash this year.

The hope is that the presence of finance ministers at the special Council will encourage a more realistic approach among agriculture ministers towards reforming the CAP. But while they are steadily exerting a more cautious approach to EEC spending, there are signs that finance ministers are not having it all their own way in national capitals.

In West Germany, Herr Gerhard Stoltenberg, who is hotly in favour of strong curbs on the Common Agricultural Policy, has been losing ground to his agricultural colleague, Herr Ignatz Kiechle. Thus the West German line today will oppose any reforms which would lead to cuts in the nominal prices paid to German farmers.

This bodes ill for the Commission's proposal to eliminate monetary compensatory amounts — pay-

ments which bridge the gap between common EEC prices and prices in national currencies. It also strikes against any attempt to use a highly restrictive price policy to peg back spending on the dairy sector.

The British bid to have an EEC regulation decreeing that the rise in farm spending should be less each year than the rise in EEC budget revenues is also running into heavy seas. More generally, only the UK and the Netherlands seem prepared to mount a radical attack on the CAP's current operations.

France is prepared to see stronger controls on northern European production — while leaving Mediterranean producers largely untouched. Other countries, such as Belgium and Denmark say the new burdens to be put on farmers should be spread equally between north and south.

But a consensus may soon be forming against the UK and the Netherlands in favour of putting curbs on imports of cereal substitutes and of taxing vegetable oils so as to reduce imports of soyabean. Why the crunch is coming, Page 12

Oil companies to ask UK for extension of tax concessions

BY RAY DAFTER, ENERGY EDITOR, IN LONDON

INTERNATIONAL oil companies are about to press the British Government for a change in North Sea tax rules which treat new fields in the north more leniently than those in the south.

The companies are to appeal for the tax incentives introduced in the March budget in order to speed the development of northern oilfields to be extended to cover oil and gas discoveries in the southern basin of the North Sea.

The campaign is being spearheaded by the UK Offshore Operators Association, which represents the leading North Sea licensees but during the next few months a number of individual companies will be submitting data to the Energy Department to support the industry's case.

Shell UK said: "There are obvious anomalies here which need to be resolved to achieve a uniformity of tax systems. This is needed in the interest of long-term development in the North Sea. We will be providing the Department of Energy with the information it needs about our possible future fields in order to help it make up its mind."

As a result of budget changes, northern oilfields exploited after April 1 last year have been made exempt from royalty payments. Royalties on fields currently on stream are paid on the basis of 12.5 per cent of the gross value of production. In addition, the Government increased allowances which could be used to offset petroleum revenue tax.

The move was designed to

encourage the offshore industry to speed up the development of new oilfields, found mostly in the central and northern areas of the North Sea. The Government left open the question of new tax concessions for fields discovered in more southerly areas, between latitudes 52 and 55 degrees.

So far the industry has discovered only natural gas in commercial quantities in this southern area.

Companies were told, however, that the Government would be willing to discuss with industry whether there was a need to extend tax relief to the southern basin. If a case was made out the benefits would be backdated to March this year.

The campaign for a further revision of the tax system is likely to be a low-key affair. Operators have been reminded by ministers and civil servants that the March tax relief was probably more extensive than the industry had seriously expected.

The package of measures announced in the budget is providing the industry with tax reliefs totalling more than £800m (£1.2bn) in the four years 1983-87. Real cash benefits are likely to total over £115m in the 1983-84 financial year.

Tax issues are also complicated by the nature of fields in the southern sector. Unlike oil prices, which are set by the international market, gas prices are negotiated between producers and British Gas Corporation. As a result gas prices take account of the operating tax regime.

Furthermore Southern Basin fields lie in much shallower water than those in the north, consequently their development costs are usually much lower.

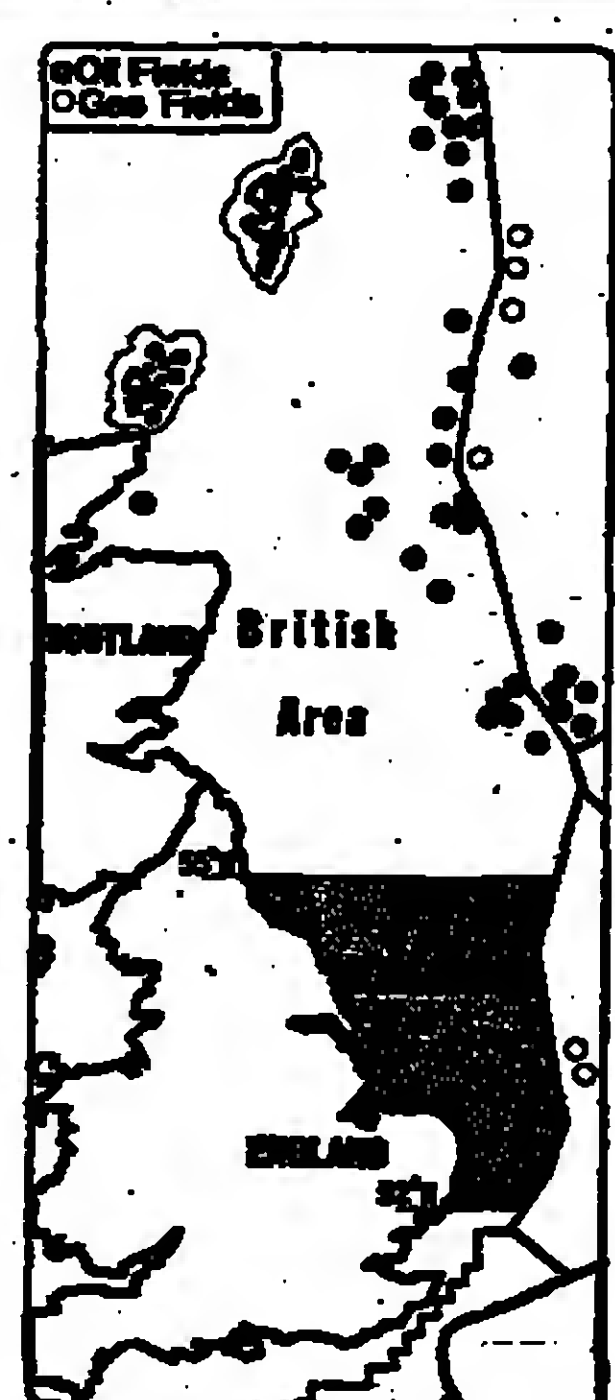
The Offshore Operators Association says that while the UK continues to import substantial quantities of natural gas from Norway, fiscal measures should be adopted to encourage the development of indigenous resources.

The operators group adds that as it is quite possible oil will be discovered in the southern basin, the Government should adopt a uniform taxation system to cover the whole of the UK Continental Shelf.

● Nine new oilfields are likely to be developed in the UK sector of the North Sea following the recent relaxation of the offshore tax system, Mr Alan Gregory, president of the Institute of Petroleum, told oil specialists in London yesterday.

The developments would provide a further 1.5m-1.5m barrels of oil production — the equivalent of two to three years oil consumption in the UK. Before the tax changes announced in the March budget, nearly 2bn barrels of discovered oil was lying unexploited because the economic and technical challenges were too severe.

Mr Gregory, chairman of BP Oil, was addressing the World Petroleum Congress in London. The event, the industry's leading conference, has attracted some 2,500 delegates including specialists and ministers from China and the Soviet Union.



Despite the importance of North Sea oil to the UK economy, Britain was a marginal influence in terms of worldwide reserves and production Mr Gregory said. It contributed only 4 per cent to total world production and its net export accounted for a mere 2.5 per cent of the total oil traded in the world's oil markets.

At a press conference later, Mr Gregory said that the UK offshore oil industry was set to make a major contribution to the technology and equipment used by companies worldwide. The UK industry was in the forefront of technology especially for underwater production systems, platform equipment and communications.

Coalition presses Begin to stay

By Patrick Cockburn in Jerusalem

SUPPORTERS of Mr Menachem Begin, the Israeli Prime Minister, were pessimistic last night that they would succeed in persuading him to stay at his post. At a Cabinet meeting on Sunday, Mr Begin, who has led the Israeli Government since 1977, said he planned to resign.

After a meeting with leaders of parties who are members of his governing coalition, Mr Begin agreed yesterday to delay his resignation until this morning.

Ministers in his Government said they had only a slender hope that he would reverse his decision. A Government spokesman said the Prime Minister had not announced his departure as a tactical manoeuvre to strengthen his hand in the ruling coalition, which has shown increasing divisions in recent months.

Mr Begin's falling health, depression as a result of the death of his wife last winter, and frustration at disunity in the Cabinet are cited as the most important reasons leading to his decision. The failure of the war in Lebanon to achieve the aims originally hoped for, and Israel's parlous economic state, are also mentioned as motives for Mr Begin's surprise decision.

The pivotal role he plays in Israeli politics was rapidly confirmed by the strength of the reaction to his announcement in the Government and in Israel as a whole. Since the enforced departure of Mr Ariel Sharon as Defence Minister earlier this year, after criticism of his actions during the Chatila massacre in Lebanon, there has been no authoritative figure in the Administration apart from the Prime Minister himself.

Members of the coalition are very much aware that the Government's support, though in decline this year, is largely dependent on Mr Begin. If his resignation is confirmed then his most likely successor will be either Mr David Levy, the Deputy Premier and Housing Minister, or Mr Yitzhak Shamir, the Foreign Minister.

A government of national unity is conceivable, but it is expected that Mr Begin's coalition will seek to stay in power while a new party leader establishes himself. The coalition has 84 seats in the Israeli parliament compared to 56 for the Labour Alignment.

In the past month, the Government has been trying to agree a wide range of budget cuts, including defence and tax increases, to prevent further deterioration in the economic situation.

Background, Page 2

Missile makers square up for UK navy deal

Continued from Page 1

There are suggestions that the Navy would prefer either Exocet or Harpoon. The Oto Melara and Matra missiles, according to some observers, are likely to be the outsiders in the contest.

Somewhat ironically, the Government has also recently called in tenders for another potentially very large contract for what is known as close-in weapons systems (CIWS) for Royal Navy frigates, destroyers and other ships. These are effectively guns — of very high speed and highly automated — which are designed to shoot down sea-skimming missiles in the last stages of their flight.

The Ministry of Defence is believed to be considering competitive systems from Vickers Shipbuilding and Engineering and British Manufacturing and Research Co (BMA) as well as systems made by General Dynamics and by General Electric of the U.S.

Decisions on both the sea-skimming missiles and the CIWS are due to be taken in the autumn, the Ministry of Defence says.

Caracas and IMF defer debt talks

Continued from Page 1

amount to several hundred million dollars and particularly affect private sector debt.

The arrears have arisen more through bureaucratic indifference than actual shortage of foreign exchange but the problem has been exacerbated by a long-simmering dispute between the country's Finance Ministry and its central bank.

This came out into the open over the weekend when Sr Leopoldo Diaz Bruzual, the President of the central bank, complained that the Finance Ministry had been preparing new foreign exchange rate regulations without consulting the bank.

THE LEX COLUMN

Meter failure at British Gas

If British Gas really is a candidate for privatisation, its powers and operations will need a radical overhaul. Unfortunately last week's efficiency study of the corporation by Deloitte, Haskins and Sells seems almost wilfully to have directed its attentions to the wrong targets. As a monopoly, British Gas is the state agent for collecting the economic rent on most North Sea gas. Ideally it should pass on that economic rent to the Exchequer and derive its profits from the efficiency with which it distributes its product.

But successive governments have failed to establish a clear distinction. The gas levy is arrived at through negotiations in which governments have been at a profound disadvantage since they have not been able to measure British Gas's efficiency.

Its success in the negotiations is underlined by Deloitte's finding that the corporation has consistently met the financial objectives set for it. There is certainly no denying the group's profitability, even though it employs every conceivable device to depress the figures. Current cost profits in the year to March 1983 were £863.1m, but that excludes the Corporation's very own 100 per cent capital allowances in the shape of "replacement expenditure" of £283.5m on assets.

The more traditional current cost adjustments come to £371.3m, so on a conventional historic cost basis, profits last year were probably in excess of £1.2bn after a £323.5m gas levy.

The corporation does not provide anything as old fashioned as a historic cost balance sheet, so it is not possible to derive a return on capital figure on this measure. But its own estimated current cost return, at 5.1 per cent, comfortably exceeds the Government target of 3.5 per cent. For a state monopoly, the risk premium over index-linked gilts — now offering a real return

of about 3 per cent — seems somewhat excessive. While it is possible to guesstimate the extent to which profits have been squeezed by advanced accounting practices, an outsider can make no headway in assessing how much the return has been reduced — if at all — by excessive layers of bureaucracy and other inefficiencies. On this topic, the Deloitte report is particularly disappointing because it has measured British Gas's efficiency against internal yardsticks. It finds that if all the regions were brought up to the standard of the most efficient, savings of £100m a year could be made.

Since this assessment, the Corporation has already found savings of £70m in real terms.

But that achievement tells outsiders very little. If BP two years ago had tackled its refinery operation with a view to bringing the worst up to the standards of its best, no doubt it would now still have the most inefficient downstream business of the majors. Internal competition is all the more invalid because of the degree of cross-subsidisation between the regions.

After this limp attempt to measure efficiency, the Deloitte study goes on to recommend that British Gas raises its revenues a further £500m by increasing selling prices to the level of its most recently contracted source of gas. In a competitive environment, a business that tried to raise its prices to produce a "normal" marginal over its highest marginal cost would rapidly find itself undercut by rivals. In essence, Deloitte is asking British Gas to treat its most recent contract as a kind of market price, and treat the margin between this and all cheaper supplies as a measure of economic rent.

So the Deloitte high price strategy is feasible only for a monopoly, and one that is pretty impervious to public sentiment at the moment. The importance which Deloitte places on the most recent contracts seems to be based more on inflationary psychology than anything else, since if future contracts were expected to be cheaper on occasion, as well as dearer, the absurd outcome could be gas tariffs shooting up and down on an erratic basis.

To give British Gas credit, it strongly disagrees with Deloitte's pricing proposals. Yet it has come no closer to a coherent pricing strategy itself: its policy of keeping prices as low as possible (at least for private consumers) simply begs the question, especially when energy pricing enters the political arena at regular intervals. But the price question must be settled before British Gas can pursue profit maximisation as a legitimate goal. The negotiable gas levy looks particularly dubious in this light.

Even if the returns from access to cheap gas could be switched from the corporation to the state, it would still be necessary to ensure that there was some incentive for efficiency in a privatised British Gas. The two pressures on British Telecom are to be competition from Mercury and reduction in real prices. The latter looks out of the question for British Gas, since the price of its raw material would not be under its control. At the same time competition would be a great deal more complicated to introduce even than in the telecommunications field. The best that could be done, perhaps, would be to break up the corporation into regional franchises under a regulatory framework.

Even without its formidable chairman, British Gas looks an awkward customer for privatisation. But whether it is to be privatised or not, the Deloitte study has failed to provide managers with a blueprint with which to increase the corporation's efficiency.

Briton 'to get key OECD economics post'

BY DAVID MARSH IN PARIS AND MAX WILKINSON IN LONDON

A BRITISH professor is expected to take over the internationally sensitive job of head of economics and statistics at the Organisation for Economic Co-operation and Development (OECD) in Paris.

He is Professor David Henderson of University College, London. His appointment will follow months of discussion among finance ministers and officials about the kind of economist needed for this post.

An OECD spokesman confirmed at the weekend that Prof Henderson was "almost certain" to get the job, although it is said there are still "some matters to be resolved" before a formal announcement can be made.

The OECD is the major centre for economic analysis and policy co-ordination for the industrial countries. Although the organisation takes a carefully balanced position in public, some of its economists have in the past been fiercely criti-

cised of the weight given to monetary policies in some countries, particularly the U.S. and the UK.

Prof Henderson, 56, a former director of the World Bank's economics department, and a specialist adviser to the Welsh Secretary under Mr James Callaghan's Labour Government in the late 1970s, has a reputation for taking a fairly middle-ground position in current economic controversies.

He has been associated with the Clare group of economists, which has argued for a somewhat more expansionary line in the UK. However, his ideas on monetary policy appear to be broadly acceptable within the UK Treasury.

His appointment would bring to an end months of speculation which started when it was announced that Mrs Sylvia Ostry, the retiring economic director, was to return to the Canadian Government service,

from which she was released on secondment.

Mrs Ostry is said to have succeeded in keeping the intellectual independence of the economics department intact during a period in which the OECD's traditional expansionist ideas have been sharply questioned.

She has, however, admitted to being somewhat abashed at the OECD's failure during the last few years — in common with many other forecasters — to predict the depth and duration of the world recession.

The choice of her successor is thought to have been considered at the highest levels in member governments, and Mrs Margaret Thatcher, the British Prime Minister, is believed to have had a say.

The choice of Prof Henderson rather than a more doctrinaire academic more closely associated with U.S. and British economic poli-

cies has come as a relief to the OECD secretariat.

Mrs Ostry's job is the first to be filled in a series of key posts now falling vacant. Mr Stephen Morris, economic advisor to Mr Ennle van Lennep, the secretary general, is leaving next month after nearly 30 years at the OECD, to join an independent Washington economic institute. He is unlikely to be replaced for the moment.

Mr van Lennep himself, now 68, who has held the job for 14 years, is due to step down in September next year. Both the U.S. and UK governments have a keen interest in making sure that his successor is someone who is likely to be sympathetic to their general economic ideas. Among those rumoured to have been discussed for the post are Herr Manfred Lahnstein, Herr Horst Schulmann, both formerly at the Bonn Finance Ministry, and Mr Christopher McMahon, deputy governor of the Bank of England.

Brazil gets BIS respite

Continued from Page 1

While the Brazilian Government continues to insist it will fulfil its obligations towards its foreign creditors, the President warned that "national sovereignty cannot be tampered with".

Over the weekend, Sr Jose Serra, no, external director of the central bank, said the "finishing touches" were being put to Brazil's revised agreement with the IMF. The letter of intent could be signed "at any moment" he commented.

Meanwhile, the U.S. Eximbank's plan to double its exposure in Brazil by providing loan guarantees of \$1.5bn has run into unexpected op-

position and the General Accounting Office (GAO), Congress's independent federal watchdog agency, has been asked to rule by September 15 whether the action is legal.

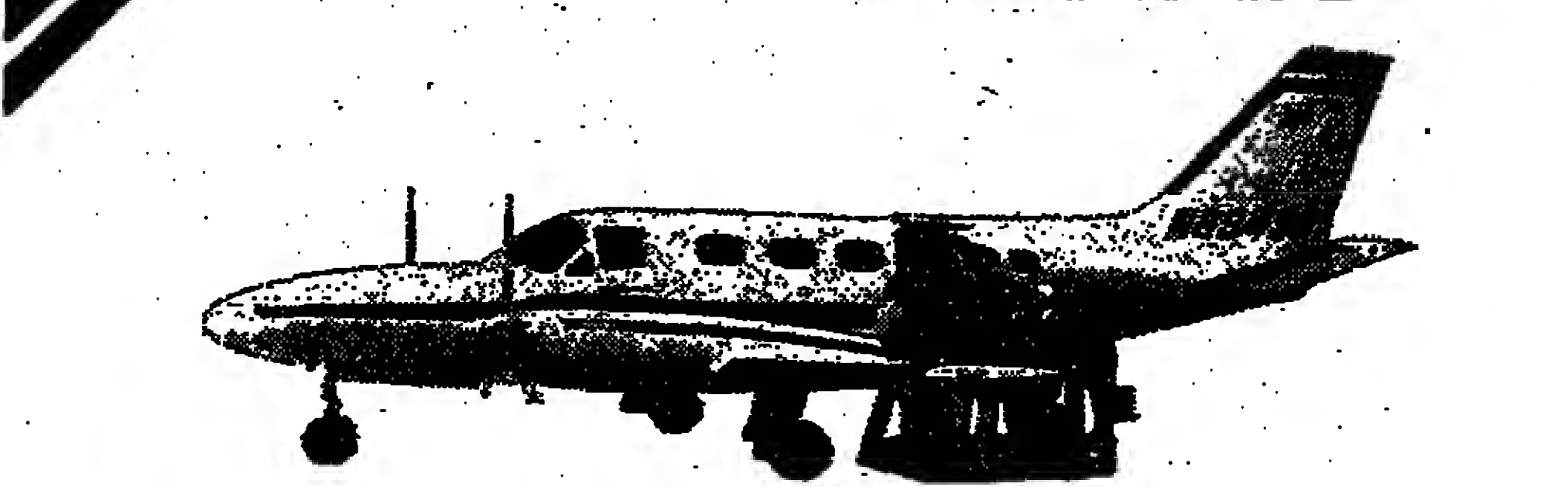
Senator William Proxmire, the ranking Democrat on the Senate Banking Committee, last week asked the GAO to investigate the \$2bn in loan guarantees for Mexico and Brazil which Eximbank announced a fortnight ago. Senator Proxmire said that the guarantees which will be used to enable the two heavily indebted countries to import U.S. goods, are a "sharp departure from the traditional role of the bank."

World Weather

Place	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud
Algeria	27	81	81	27	81	81	27	81	81
Amman	27	81	81	27	81	81	27	81	81
Baghdad	27	81	81	27	81	81	27	81	81
Bombay	27	81	81	27	81	81	27	81	81
Buenos Aires	27	81	81	27	81	81	27	81	81
Calcutta	27	81	81	27	81	81	27	81	81
Cairo	27	81	81	27	81	81	27	81	81
Colon	27	81	81	27	81	81	27	81	81
Hong Kong	27	81	81	27	81	81	27	81	81
London	27	81	81	27	81	81	27	81	81
Madras	27	81	81	27	81	81	27	81	81
Mumbai	27	81	81	27	81	81	27	81	81
Paris	27	81	81	27	81	81	27	81	81
Rangoon	27	81	81	27	81	81	27	81	81
Seoul	27	81	81	27	81	81	27	81	81
Singapore	27	81	81	27	81	81	27	81	81
Tokyo	27	81	81	27	81	81	27	81	81
Yokohama	27	81	81	27	81	81	27	81	81

Headings at mid-day yesterday:
S-South D-Drizzle F-Fair P-Pog H-Hail R-Rain
S-Sun St-Steat S-Snow T-Thunder

TOTALLY PREDICTABLE AVIATION COSTS From ROGERS



IMPOSSIBLE? — not with CESSNA's new 'COMPANY AIRLINE'

- * A unique concept in Business Aviation
- * Lease a CESSNA Conquest Propjet for a FIXED monthly payment, guaranteed not to change for five years.
- * Covers leasing, full maintenance, hangarage, insurance, crew training. Crew can also be provided.

The unique advantages of business aircraft — above all fitting more productive hours and less exhausting travel into your week — are now generally recognised in Europe, as they have been in N. America for many years. However, the cost and its unpredictability have prevented many companies who would benefit from their own airline from taking advantage of this opportunity.

Now CESSNA and ROGERS AVIATION have come up with the answer — a low cost, fixed price programme with all the advantages and none of the inconvenience of aircraft ownership.

and — CRANFIELD SHOW SPECIAL DEAL —
£200,000 off current list price and 6 months totally free operation — crew, fuel, maintenance, insurance etc. all free — if you buy our CESSNA 425 8 seat 300 mph Executive Propjet during the show.

Contact ROGERS AVIATION for full details Tel 01-245 9837 Telex 8950232 or see us at the Cranfield Business Aviation Show September 1st-3rd Chateaux A 11-12 Cranfield Airfield, Bedfordshire

UK COMPANY NEWS

Canal Randolph properties bid

BY WILLIAM HALL IN NEW YORK

alf-year
se 5%

Increased taxes of 7% have been levied on the Canal Randolph properties. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

upgrades asts

Although the financial results of the company are not yet known, it is expected that the company will be able to upgrade its assets. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

awaitis control

The company is awaiting control of its assets. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

ICE

EUROBOND TURNOVER (nominal value in £m)

Week	1983	1982
1983-28	6,384.1	5,673.1
1982-52	5,673.1	5,673.1

FLUATING RATE

The company is floating its rate. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

CONVERTIBLE BOND

The company is issuing convertible bonds. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

Munton Brothers in £1.55m cash call

Munton Brothers, the shirts and clothing manufacturer, is making a rights issue to raise around £1.55m after expenses. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

Johnson Matthey Bankers advances to record £24m

A record profit of £24.33m was achieved by Johnson Matthey Bankers in the year ended March 31 1983, showing growth of 47.68m over the previous year. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

BOARD MEETINGS

The following companies have notified the London Stock Exchange of board meetings. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

Takeover Panel to look into complaint against BPCC

THE TAKEOVER PANEL intends to investigate a complaint that Mr Robert Maxwell's British Printing and Communications Corporation made false claims in its bid for John Waddington, the Leeds-based games and packaging group, best known for the Monopoly and playing cards. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

Lennons still improving

THE CONTINUING implementation of the policies to improve profitability at Lennons Group was having a beneficial effect on performance and progress was being maintained, Mr D. P. Lennon, the chairman, said at the annual meeting. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

FT Share Information

The following securities have been added to the Share Information Service. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

In war, in peace you need his help

When help is needed, please help him and his dependants

A donation, a covenant, a legacy to THE ARMY BENEVOLENT FUND will help soldiers, ex-soldiers and their families in distress

DEPT. FT. 4 QUEEN'S GATE, LONDON SW7 5HR

Payment per patient in dental scheme

BY GARETH GRIFFITHS

A FUNDAMENTAL change in the way the UK funds its dental services could emerge from a pilot project to be launched next year by the Department of Health and Social Security. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

Seconds Out expands

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

SECONDS OUT, a chain of shops selling "seconds" clothes, is to open four more stores by the end of the year bringing the total to 20. The company has been handed over to a new management team. The company has been handed over to a new management team. The company has been handed over to a new management team.

BASE LENDING RATES

Bank	Rate	Bank	Rate
A.B.N. Bank	9 1/2%	Hambros Bank	9 1/2%
All Bank International	9 1/2%	Heritable & Gen. Trust	9 1/2%
Allied Irish Bank	9 1/2%	Hill Samuel	9 1/2%
Amro Bank	9 1/2%	C. Hoare & Co.	9 1/2%
Bank of America	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Australia	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Canada	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of China	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Cyprus	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of India	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Ireland	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Japan	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Korea	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of London	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Mauritius	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Mexico	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Monaco	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of New Zealand	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Norway	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Oman	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Pakistan	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Portugal	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Romania	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Russia	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Saudi Arabia	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Singapore	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of South Africa	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Spain	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Sweden	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Switzerland	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Taiwan	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Thailand	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Trinidad	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Tonga	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Tunisia	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Turkey	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Uganda	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Uruguay	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Venezuela	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Zambia	9 1/2%	Kingsnorth & Shanghai	9 1/2%
Bank of Zimbabwe	9 1/2%	Kingsnorth & Shanghai	9 1/2%

US \$50,000,000 GTE Finance N.V. GIB

Floating Rate Notes Due 1987
Convertible into 10% Bonds Due 1992

In accordance with the terms and conditions of the Notes, notice is hereby given that for the interest period commencing on August 31, 1983 the Notes will bear interest at the rate of 11% per annum. The interest payable on the relevant Interest Payment Date, February 28, 1984 against Coupon No. 7 will be US\$278.08 and the Conversion Interest Amount will be US\$1.38 per Note converted.

ORION ROYAL BANK LIMITED

Interest Determination Agent

The Republic of Panama U.S. \$70,000,000

Floating Rate Serial Notes due 1990

For the six months
31st August, 1983 to 29th February, 1984

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 11% per annum, per annum, and that the interest payable on the relevant interest payment date, 29th February, 1984 against Coupon No. 11 will be U.S. \$440.78.

The Republic of Panama U.S. \$70,000,000

Floating Rate Serial Notes due 1990

For the six months
31st August, 1983 to 29th February, 1984

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 11% per annum, per annum, and that the interest payable on the relevant interest payment date, 29th February, 1984 against Coupon No. 11 will be U.S. \$440.78.

The Republic of Panama U.S. \$70,000,000

Floating Rate Serial Notes due 1990

For the six months
31st August, 1983 to 29th February, 1984

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 11% per annum, per annum, and that the interest payable on the relevant interest payment date, 29th February, 1984 against Coupon No. 11 will be U.S. \$440.78.

RECENT ISSUES

EQUITIES

Issue Price	1988		Stock	Opening	1st	Net. Int.	Comm. Div.	Gross Div.	Div. Yield
	High	Low							
\$118	F	14.9	1122	1230	147				
120	F	14.9	1122	1230	147				
120	F	14.9	1122	1230	147				
\$100	F	25.0	520	800	240				
100	F	25.0	520	800	240				
\$75	F	13.0	800	1000	180				
75	F	13.0	800	1000	180				
\$100	F	13.0	800	1000	180				
100	F	13.0	800	1000	180				
\$115	F	15.0	105	104	11				
115	F	15.0	105	104	11				
\$120	F	15.0	105	104	11				
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\$120	F	15.0	105	104	11				
120	F	15.0	105	104	11				
\$120	F	15.0	105	104	11				

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the yearly high and low are noted, as are the new stock price. Unlisted shares are noted, rates of dividends are annual distributions based on the latest declaration

a-dividend also extra(s) b-annual rate of dividend plus stock dividend c-quadruple dividend d-called e-new yearly high f-called low g-previous year's high h-previous year's low i-dividend in Canadian funds, adjusted to 15% non-residence tax j-dividend declared after split-up or stock dividend k-dividend paid in full l-dividend declared after split-up m-dividend declared at meeting n-dividend declared or paid this year, an accumulative issue with dividends in arrears o-new issue in the past 52 weeks P-high price P/E-ratio Q-earnings ratio r-dividend declared or paid in preceding 12 months, plus stock dividend s-stock split t-dividend begins with date of split, also called l-ratio u-dividend declared after split v-dividend declared at value on ex-dividend or ex-distribution date w-new yearly high y-trading halted w-in bankruptcy or receivership or being reorganized x-dividend declared or paid in full y-dividend by such companies wd-when distributed wt-when issued ww-with warrants, x-ex-dividend or ex-rights, xds-ex-distribution with warrants, y-dividend, yx-dividend and sales in full yd-yield z-zero in full

WORLD STOCK MARKETS

WALL STREET

Correction phase takes hold

SLUGGISH form emerged on Wall Street yesterday as investors backed away from both fixed interest and stock markets, writes Terry Byland in New York. Retail interest in bonds was thin and the professional market traders, whose optimism over interest rates was so abruptly quenched last week, also had to contend with Friday's news of a fall in M-1 money supply far smaller than market forecasts. The key long bond, sharply down in late trading on Friday, gave further ground yesterday.

The stock market traded sharply lower in the first hour but the 1.81 mark on the Dow Jones industrial average again served as a resistance level. Leading stocks later rallied slowly and by the end of the session the Dow was a net 2.04 points up at 1,194.11.

But turnover was the lowest since last New Year's Eve. Only 53.2m shares changed hands and the broad range of the market showed sharp losses. At 903, easily exceeding gains of 809.

Now that it seems clear that the Federal Reserve Board is unlikely to institute any further falls in interest rates in the short term, the stock market has reverted to its "correction mood," with commentators competing to forecast the bottom of the correction. Belief in a renewal of the bull phase in the near future has remained undimmed, however.

Small losses were scattered among the major stocks. IBM, still widely regarded as the likely winner in both the mainframe and personal computer markets, gained \$4 to close at \$119.

Homeyell at \$118, managed to gain \$1.15 while in the active home computer sector, both Coloco at \$37 and Commodore at \$43, were a dollar to the good. With IBM about to introduce its new Peanut home computer, the U.S. investment media has been busy weighing the chances for the established winners in this fast-growing segment of the industry.

Motor shares were featured by Ford, \$4 off at \$54.4 in heavy turnover as the market assessed the implications for earnings of the company's success in European markets.

Cincinnati Milacron, a major manufacturer of machine tools, put on \$4 to \$28.4 in response to the news that machine tool industry orders rose by 19 per cent last month.

Some firm spots were to be found in steel after price rises from the major companies. Inland, recommended by brokerage analysts, put on \$4 to \$29.4.

But oil shares continued to give up some of last week's gains. Exxon shedding \$4 to \$37.4 and Mobil \$4 to \$33.4.

The credit markets traded nervously in the face of some small selling from the professional market. With Federal Funds only marginally lower at 9 1/2 per cent and September expected to bring a hefty weight of Treasury financing, traders were unwilling to take on any more stock in addition to the bonds bought over the previous fortnight.

Discounts on Treasury bills slipped, by about six basis points to 9.24 in the case of the three-month securities and two basis points to 9.48 in the case of the six-month.

Municipal bonds lost as much as one point while bracing themselves for a rush of around \$1.4bn in new issues this week. Corporate bonds remained quiet but prices eased in line with the federal bond sector.

TOKYO

Selective buying by incentive

GROWING concern over higher U.S. interest rates and a weaker yen led to selective buying of incentive-backed and speculative issues in Tokyo yesterday and shares moved slightly higher, while trading on the bond market was extremely thin, writes Shigeo Nishitaki of Jiji Press.

The Nikkei-Dow market average closed 13.93 points up at 9,172.54 on volume of 372.29m shares, which was lumpy for a closing day of the trading month.

Nevertheless, the volume was slightly up on the previous session as securities

houses exerted greater sales efforts throughout the country. The market has in effect entered the month of September, because shares bought are delivered in four trading days' time.

Investors generally took a cautious view of the market's outlook because of higher U.S. interest rates and the yen's slide to ¥247 to the dollar. They were also discouraged by dwindling hopes for increased purchases by European investors early this week, as foreign activity was restricted by the bank holiday in Britain.

Among blue chips, NEC firmed ¥20 to close at ¥1,480, but some other issues eased on small-lot selling, with Sony losing ¥70 to ¥3,350, Matsushita Electric ¥20 to ¥1,580, Hitachi ¥2 to ¥885 and Toyota Motor ¥20 to ¥1,160.

Pharmaceutical issues found buyers across a broad front on expectation of new drug developments. But medium-capital drug issues such as Mochida and Kaken came on offer on news of poor earnings results stemming from lower standard prices for drugs.

Banyu Pharmaceutical rose sharply by ¥90 to ¥1,490 on speculative buying following its capital tie-up with Merck of the U.S.

Aoki Construction advanced ¥48 to ¥993 on rumours of a gold dust find in Brazil. Citizen Watch climbed ¥23 to ¥355 and Rhythm Watch ¥27 to ¥597, on renewed speculation of a business link with an influential U.S. company.

Trading on the bond market dwindled further, largely because of the unclear outlook for U.S. interest rates. City, regional and trust banks all stopped selling bonds while agriculture and forestry-related institutions shied away from the market.

The yield on the benchmark 7.7 per cent long-term government bond, with a little more than six years remaining to maturity, remained almost unchanged at around 7.75 per cent. Leading brokerage houses are bullish about the market's prospects, saying that if the yield climbs two basis points to around 7.77 per cent, the bond will meet good demand, ruling out the possibility of a decline in the market.

EUROPE

Week starts dull and dispirited

THE RENEWED strength of the dollar, on the back of U.S. money supply disappointments, was identified by bourse brokers yesterday as the primary reason behind a dull and dispirited day as interest rate concerns came once more to the fore.

Brussels was additionally prone to jitters over the future of the governing Belgian coalition, rent by divisions on proposed tax concessions to stimulate the building industry. No clearer indications emerged, however, that the centre-right government which the market so favours was about to fall.

Holding companies were most affected, bringing Société Générale Bfr 30 to Bfr 1,870, Sofina Bfr 70 to Bfr 4,930 and Bruxelles Lambert Bfr 35 to Bfr 2,315.

Steels were depressed, with Cockerill Sambre off Bfr 4 at Bfr 163 and wire maker Bekaert Bfr 100 weaker at Bfr 3,000.

A firm Amsterdam opening gave way to widespread losses which rarely followed sectoral lines.

Of the major banks ABN suffered a F13.50 fall to F136.50 but Ned Mid put on F1.30 to F143.30, while demand for the internationalised centred on Philips - up F1.20 to F145 - at the expense of others such as KLM, down F1.20 to F144. Elsewhere Fokker added a guilder to F137.

Dutch bonds were steady but lethargically dealt. The pricing of an ABN seven-year, 9 per cent issue at 100.8 instead of the expected par was accepted with equanimity.

An extension of last week's Frankfurt decline left the Commerzbank index 11.8 lower at its mid-session calculation of 915.9.

The release of optimistic projections for West German manufacturing by the IFO economic institute had little immediate impact, although in singling out car makers as particularly well placed for the second half of the year it may have contributed to making Daimler-Benz a firm spot, up 80 pf at DM 583.80.

At the same time, Volkswagen dipped

DM 5.20 to DM 212.50 and BMW DM 4.30 to DM 375.50.

Government bond prices lost as much as 80 basis points, affected not only by U.S. factors but by the July current account slide into a DM 3bn deficit announced last Thursday. The Bundesbank bought DM 60m in public paper.

A moderately active Paris session finished with a lower bias as Friday's profit-taking carried over. Foods were among the most active, with Beghin Say down Ffr 13 to Ffr 311 and Moët-Hennessy Ffr 36 to Ffr 1,205 but Lesieur up Ffr 27 to Ffr 1,162.

A bank of France tender brought the sale of Ffr 2.44bn in nine-month Treasury bills and a yield down to 12 1/2 per cent from 12 3/4.

Broadly lower Zurich showed Jacobs Suchard as the only leader with a gain of any substance. The confectioner ended SwFr 50 stronger at SwFr 5,775, in contrast to a loss of SwFr 40 for Nestlé at SwFr 3,940.

Banks and insurances also fared poorly, while domestic bonds were marked down significantly.

Uncertainty over the scope of Italian Government measures to curb public borrowing overshadowed Milan, where a broker noted that many participants had taken positions in expectation of a bullish month and were now acting to liquidate them.

Banca Commerciale shed L250 to L30,400 and insurer Generali L1,200 to L143,400, among the industrials Fiat fell L46 to L3,189 and Sna Viscosa L45 to L1,200. Long-dated Treasury issues found buyers in an otherwise asier bond market.

As often occurs, Scandinavian markets proved more buoyant than the rest. Stockholm encountered lively dealings which took Ericsson SKr 25 higher to SKr 405, while Copenhagen featured Danke Akerkær with a DKr 27.40 rise to DKr 732 and Olsø accorded Norsk Hydro a Nkr 18 improvement to Nkr 540.

AUSTRALIA

Gold finds reason for resilience

SMALL but consistent declines throughout the Sydney resource sector yesterday, attributed mainly to a lack of overseas involvement, were punctuated only by a good showing for some leading gold issues in the face of lower world bullion values.

Dealers pointed out that their latest earnings and production figures had been promising, thus allowing the stocks some resilience against the vagaries of precious metal prices.

Base metal producers were worst affected by the neglect from abroad. BHP came down 10 cents to A\$11.25, Western Mining seven cents to A\$4.93 and Bougainville Copper three cents to A\$2.92.

Industrials were quiet, leaving the All Ordinaries index 1.1 off at 695.8.

SINGAPORE

SPORADIC buying interest was finely balanced by profit-taking in Singapore, with advancing issues ahead of declines by a bare 10 to 88.

Banks were very thinly dealt but mixed industrials showed livelier features. Haw Par added 12 cents to S\$2.63 while Straits Trading slipped 15 cents to S\$5.85.

Faber Martin, the day's most active with 1.2m shares changing hands, moved up three cents to S\$2.71. Hong Leong Industries led the second section with a 35-cent jump to S\$8.70.

SOUTH AFRICA

LITTLE direction emerged for Johannesburg gold shares as the British bank holiday left volume at a trickle.

Foreign ownership of these shares, brokers' figures show, is down to some 37 per cent of total capitalisation on a steady decline from 42 per cent at the end of 1979. Nonetheless, much of the buying and selling impetus still appears to stem from financial centres abroad.

President Brand firmed 50 cents to R57, while in mining financials Gold Fields of SA put on the same amount to R151. Industrials held steady.

CANADA

A WEAK Toronto opening was all but offset by the close in light volume. The resource and transport sectors attracted most of the selling.

Massey-Ferguson moved marginally higher on its sharply reduced second quarter loss. Most Montreal sectors hovered just above pre-weekend levels, with most of the losses among banks.

CANADA

(Closing Prices)

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APPOINTMENTS

Chief executive at James Neill

Mr Peter M. Bullock, managing director of Flynn and John, managing director of the Electronics Group in the UK, is to become group chief executive of JAMES NEILL HOLDINGS on November 1. For the past four years Mr J. Neill has been the executive chairman of James Neill Holdings but as he is approaching the group's normal retirement age he will transfer his existing managerial responsibilities to Mr Bullock whilst continuing as chairman of the group.

Mr Elliot Harbison has been appointed head of business development within TSB SCOTLAND. Prior to this appointment he held the same position with South of Scotland TSB which has subsequently been merged with the three other Scottish TSBs to form TSB Scotland.

Mr Francis Guesde will become managing director of CAYROEN CARS LIMITED on September 1. He replaces Mr. Gervais Lehigh who is leaving to become managing director of Citroen Switzerland. Mr Guesde was managing director of Citroen Holland.

Mr Brian William Ward has been appointed managing director of CAPTAIN'S HOLDINGS. Mr Ward will be responsible for the subsidiary of Cattle's (Holdings),

CONTRACTS

£8.8m road work for Tractor Shovels

Fife Regional Council has placed an £8.8m contract for a "Hillside" to aid the county's economic future. The contract for the first phase of the "East Fife" regional road has gone to the Fife arm TRACON SHOVELS. The government is to be urged to reduce the projected eight to 10 years completion of the £8m network to four or five years.

A disused chalk quarry is the site of a £8.8m Tesco superstore being built by COSTAIN CONSTRUCTION near Aveley, Essex. The site, formerly part of the old Farnham works, is surrounded by chalk faces up to 12 metres high. Costain is clearing these of vegetation and stabilising them by backfilling with chalk and granular materials to achieve gentle 30 degree slopes. These will later be landscaped and planted.

MISS PATRICIA MAHA, vice-president of J. Walter Thompson International and head of external affairs, J. Walter Thompson Group (UK) has been appointed a director of the WOOLWICH EQUITABLE BUILDING SOCIETY.

MR ROBERT FRANKMAN has been appointed sales director (previous director of national account sales) and Mr David GILL, previously finance controller, becomes finance director of OZALID (UK).

Building contracts valued at £8.8m including two from the BBC worth more than £1.5m, have been secured by ESLEY-TYAS CONSTRUCTION, a member of the Esley-Tyas Property Group. The larger of the two BBC contracts is for the construction of eight two and three-storey dormitory blocks in four wings and a common room at the BBC's engineering training centre at Wood Norton, near Evesham. At Gabaia, Cardiff, Esley-Tyas is to build a theatre and projection room. Other work includes a £800,000 contract by the Harris Queensway Group for design and construction of a retail store and storage area at Catford. Total floor area is 30,000 sq ft, together with associated car parking, service area and landscaping.

Contracts awarded to TILBURY CONSTRUCTION are valued at over £7.5m. These include two-storey residential and teaching blocks at Missenden Abbey, worth £1.5m, under an order placed by Buckinghamshire County Council. Work begins on August 31 for completion in 22 months; £1.25m extensions to Aylesbury sewage treatment works have been awarded by Thames Water Authority under an 18-month construction programme—a reaction tank, flow tank, pump-house, flow channel and associated pipework are the principal aspects of the contract. The Property Services Agency has placed an £800,000 two-year contract for various

**GENERALI**
Assicurazioni Generali

1982 Highlights From the Report of the Board of Directors

(000 US Dollars)	1982	1981
Premiums written	1,406,931	1,237,329
Premiums ceded	-240,436	-223,088
Premiums net	1,166,495	1,014,241
Net investment income	239,295	189,220
Technical interest allocated to Life funds	-100,967	-83,204
Investment income available	138,328	106,016
Insurance underwriting result	-91,779	(5,852)
Operating result	46,529	40,654
Profit on sale of investments	18,998	15,816
Profit from transfer to "Generali Leben" Frankfurt	6,757	-
Surplus income	4,664	570
Unrealised capital losses on securities	-14,242	-14,855
Allocation to reserve for realised capital gains to be reinvested	-5,102	-2,038
Taxes	-19,565	-5,933
Total other items	-8,490	-6,462
Profit	38,939	34,192

- Gross premium written by the Company totalled \$1,407 m (+14.2% on equal terms).
- The profit for the year amounted to \$38 m after allocation of \$5.1 m to the reserve for realised capital gains to be reinvested.
- The underwriting loss suffered a marked increase varying from \$65.4 m to \$91.8 m.
- Investments at the end of the year amounted to \$3,127.2 m showing an increase of \$377.2 m (+22.6%) over the prior year.
- Net investment income totalled \$239.3 m increasing 30.5% on equal terms. The average yield has grown from 8% in 1981 to 9.1% in 1982. Realised capital gains amounted to \$19 m. Of this total, \$2.1 m is in respect of the sale of properties, and \$13.9 m is generated from the sale of securities.
- The revaluation of investments regulated by a special law resulted in a positive balance of \$288.9 m which has been allocated to the proper revaluation reserve. Due also to this operation the shareholders' surplus, including the year's profit, increased to \$609.4 m (+107.5%).
- The Life portfolio of the Frankfurt Branch Office has been transferred to the Subsidiary Company "Generali Lebensversicherung AG".
- The dividend per share amounts to \$0.80 being paid on a larger number of shares as a result of the capital increase from \$73 m to \$91.2 m. Therefore, the actual growth is 25%.
- The Extraordinary General Meeting approved the proposal to increase the capital from \$91.2 m to \$182.4 m by doubling the nominal value of the shares and subsequently splitting the shares in the proportion of 4 to 1.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interim or final. The sub-divisions shown below are based mainly on last year's timetable.

DIVIDENDS	INTEREST PAYMENTS
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AGRICULTURE	INDUSTRY	COMMERCE	TRANSPORT	UTILITIES	FINANCE	REAL ESTATE	TELECOMMUNICATIONS	OTHER
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1982		1981		1980		1979		1978	
<h2 style="text-align: center;">Insurances—continued</h2>									
Albany Life Assurance Co Ltd 3 Parkers Lane, Potters Bar, 0707-62311					Pension Funds				
Fixed Int	105.4	111.1	+ 0.2						
Fixed Inv	106.0	111.6	+ 0.4						
Sec Inv	118.6	123.9	+ 0.9						
N America	100.5	114.5	+ 0.9						
Far East	123.8	130.4	+ 0.8						
Intl Mkts	117.2	122.2	+ 0.9						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
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Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						
Intl Pnc	105.7	111.2	+ 0.5						
Govt Pnc	105.2	110.5	+ 0.5						
Corp Pnc	106.2	111.8	+ 0.6						
Worl Pnc	105.2	110.5	+ 0.5						

Albany Life Assurance Co Ltd			Pension Funds			
3 Parkes Lane, Porters Bar,			UK Equity	106.4	111.0	+0.2
Director, 1986-87	596.2	627.6	US Equity	105.2	111.5	+0.2
Chief Executive, 1986-87	596.2	627.6	Stock Index	119.1	123.9	+0.2
Chief Financial Officer	596.2	627.6	Foreign	119.1	123.9	+0.2
Chief Actuary	596.2	627.6	Far East	119.1	123.9	+0.2
Chief Underwriter	596.2	627.6	Com Prop	99.8	104.2	+0.2
Chief Claims Officer	596.2	627.6	Deposit	99.8	104.2	+0.2
Chief Risk Officer	596.2	627.6	Unit Link	99.8	104.2	+0.2
Chief Investment Officer	596.2	627.6	London Life Linked Asset Ltd			
Chief Compliance Officer	596.2	627.6	10 Temple St, Bristol			
Chief Legal Officer	596.2	627.6	Equity	237.0	233.3	-0.2
Chief HR Officer	596.2	627.6	Property	237.0	233.3	-0.2
Chief IT Officer	596.2	627.6	Debt	237.0	233.3	-0.2
Chief Marketing Officer	596.2	627.6	Index	237.0	233.3	-0.2
Chief Operations Officer	596.2	627.6	International	237.0	233.3	-0.2
Chief Compliance Officer	596.2	627.6	London Life Protected Funds Ltd			
Chief Risk Officer	596.2	627.6	Property	163.4	164.6	+0.2
Chief Investment Officer	596.2	627.6	Debt	163.4	164.6	+0.2
Chief Compliance Officer	596.2	627.6	Index	163.4	164.6	+0.2
Chief HR Officer	596.2	627.6	International	163.4	164.6	+0.2
Chief IT Officer	596.2	627.6	London Life Protected Funds Ltd			
Chief Marketing Officer	596.2	627.6	Property	120.0	120.0	+0.2
Chief Operations Officer	596.2	627.6	Debt	120.0	120.0	+0.2
Chief Compliance Officer	596.2	627.6	Index	120.0	120.0	+0.2
Chief HR Officer	596.2	627.6	International	120.0	120.0	+0.2
Chief IT Officer	596.2	627.6	London Life Protected Funds Ltd			
Chief Marketing Officer	596.2	627.6	Property	113.4	113.4	+0.2
Chief Operations Officer	596.2	627.6	Debt	113.4	113.4	+0.2
Chief Compliance Officer	596.2	627.6	Index	113.4	113.4	+0.2
Chief HR Officer	596.2	627.6	International	113.4	113.4	+0.2
Chief IT Officer	596.2	627.6	London Life Protected Funds Ltd			
Chief Marketing Officer	596.2	627.6	Property	106.4	106.4	+0.2
Chief Operations Officer	596.2	627.6	Debt	106.4	106.4	+0.2
Chief Compliance Officer	596.2	627.6	Index	106.4	106.4	+0.2
Chief HR Officer	596.2	627.6	International	106.4	106.4	+0.2
Chief IT Officer	596.2	627.6	London Life Protected Funds Ltd			
Chief Marketing Officer	596.2	627.6	Property	100.0	100.0	+0.2
Chief Operations Officer	596.2	627.6	Debt	100.0	100.0	+0.2
Chief Compliance Officer	596.2	627.6	Index	100.0	100.0	+0.2
Chief HR Officer	596.2	627.6	International	100.0	100.0	+0.2
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Chief Compliance Officer	596.2	627.6	Index	100.0	100.0	+0.2
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Chief HR Officer	596.2	627.6	International	100.0	100.0	+0.2
Chief IT Officer	596.2	627.6	London			

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Continued from Page 20																																			

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The Advertising Standards Authority.
If an advertisement is wrong, we're here to put it right.
 ASA Ltd, Brook House Torrington Place London WC1E 7HN

[illegible][illegible][illegible]

STANDARD Life Insurance Co. of New York			
Standard Life Trust Mgmt. Ltd.			
3, George St., Edinburgh, EH2 2JZ	031 225 2352		
Annual Audit	75.7	+0.7	355.92
Stewart Unit Trst. Managers Ltd. (a)			
45, Charlotte St., Edinburgh	031 226 3277		
1 American Unit	75.7	+1.15	
2 American Unit	75.7	+1.15	
3 American Unit	75.7	+1.15	
(Withdrawal Units)			
1 American Unit	75.7	+1.15	
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96 American Unit	75.7	+1.15	
97 American Unit	75.7	+1.15	
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99 American Unit	75.7	+1.15	
100 American Unit	75.7	+1.1	

PRICES

Table with multiple columns listing various financial instruments and their prices.

NEW YORK
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Managers Ltd/

Unit Trusts (UK)

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United Trust Managers Ltd

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Insurance

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INSURANCE & OVERSEAS MANAGED FUNDS

Table listing various insurance and managed funds, including company names, addresses, and contact information.

Table listing various insurance and managed funds, including company names, addresses, and contact information.

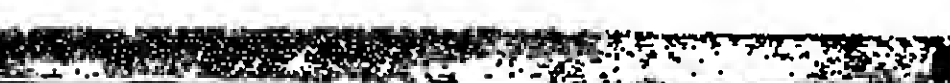
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OFFSHORE AND
OVERSEAS

Table listing offshore and overseas managed funds, including company names, addresses, and contact information.

Table listing offshore and overseas managed funds, including company names, addresses, and contact information.



Friday August 30 1983

Financial Times Tuesday August 30 1983

SECTION III

FINANCIAL TIMES SURVEY

West Germany

BANKING, FINANCE AND INVESTMENT

The Federal Republic's financial markets responded to the recent change in government with some remarkable gains in most sectors. Lately, however, more sober assessments of the country's economic prospects have prevailed. There remain fundamental weaknesses in the system as a whole—such as the inadequacy of equity capital supply—which continue to limit its economic contribution.

Post-election glow begins to cool

BY STEWART FLEMING in FRANKFURT

WEST GERMANY'S financial markets have been anxiously reassessing the longer-term economic prospects for the Federal Republic during the past three months as the initial wave of euphoria which greeted Dr Helmut Kohl's Right-of-Centre coalition government has waned.

Easy assumptions that the Bundesbank's success in curbing inflation and eliminating a huge current account deficit would quickly be translated into a strengthening of the D-mark on the foreign exchanges and greater freedom to follow domestically orientated economic policies have had to be discarded. This month the D-mark slipped to a nine-year low of DM 2.74 against the U.S. dollar, helping to prompt co-ordinated intervention on the foreign exchanges by the world's central banks led by the Germans and the Swiss.

There has been mounting evidence, too, that Dr Kohl's election, far from ushering in a new bull market in the fixed-interest sector, signalled the cyclical low point for West German interest rates. Long-term bond yields have risen on average a full percentage point since March to almost 8½ per cent.

A few months ago the prospects for the financial markets looked much rosier in the eyes of many participants. Rarely can a democratically elected leader have been blessed with the sort of welcome which West Germany's new Chancellor received. Share prices surged by 26 per cent from their August lows in the months leading up to the March general election which confirmed Parliament's decision in September 1982 to transfer power to the new coalition. By May and June of this year some indices had broken through into their all-time highs; gains were around 50 per cent from their August lows.

On the bond market too, spurred on by anxious moves by the Bundesbank to ease monetary policy more quickly and breathe some life into a flagging domestic economy, prices surged before the March election. Bond yields, which had hit 11½ per cent in mid-1981, were just under 10 per cent at the beginning of 1982. Investors who caught the roller coaster ride then were showing big gains by March 1983 as the yield level moved

towards the 7½ per cent mark. Thus in a few brief months the mood of despair which gripped the business community a year ago as the electrical giant AEG-Telefunken had to turn to the courts for protection from its creditors, had been swept away.

It would of course be an over-simplification to suggest that the change of government was the only explanation for the spreading optimism. But after 13 years during which West Germany had been ruled by a Centre/Left coalition, a period which saw government's share of national income rising steadily as the share of corporate profits sank, the significance of the shift in Bonn should not be underestimated either. West German businessmen who had watched with admiration as Mrs Margaret Thatcher had re-ordered Britain's political priorities and with horror at France's experiment in Socialism had no doubts where their sympathies lay.

The financial markets in Germany had decided long before the collapse of Mr Helmut Schmidt's government in September of last year that it was paralysed by internal dissension and exhausted after its long years in office. Thus even though it had taken steps to curb the structural budget deficit, the moves were judged in financial circles to be lacking in conviction.

By contrast, in the field of economic policy the new centre-right coalition was seen to have both sufficient cohesion and energy to force its policies through. Those policies, moreover, were broadly speaking what the financial community

had been calling for. They include measures aimed at boosting the share of profits in national income, not just cyclically but through a long-term redistribution of income back to the corporate sector. They include steps to curb government spending, which had risen from 40 per cent of Gross National Product in 1970 to 51.5 per cent in 1982.

So when Finance Minister Herr Gerhard Stoltenberg presented the Cabinet's plans for the 1984 Budget earlier this year, proposals to limit increases in nominal expenditure to 2 per cent, to keep the Federal borrowing requirement around the DM 40m level and to trim back transfer payments were welcomed. More recently, however, some economists—the Ifo economics institute in Munich, for example—have been expressing fears that budget policy could be too restrictive in 1984 and cramp the economic recovery.

These positive developments in the field of fiscal policy have been matched by both mounting evidence that the worst of the three-year recession is over. GNP in the first half of the year is expected to show a modest plus in real terms, backed by the strong upturn in the construction sector, particularly the housing market, and rising consumer spending, particularly on cars.

There are still doubts, however, about how sustainable the upswing will be, for it has been accompanied by a cut in the savings ratio which is not expected to continue and has not been accompanied by strong evidence which would suggest that either consumer

investment or export sales will give the economy a shot in the arm strong enough to offset the stagnation of consumer incomes or the drag of budget consolidation measures. Many economists would be pleased to see a 1 per cent real growth of GNP in 1983 and a 2 per cent rise in 1984—figures which would not, however, halt the upward drift of unemployment to seasonal peaks of over 5m.

For the financial markets modest growth is much better than no growth at all, however, especially since it is being accompanied up to now by evidence of a healthier trend in corporate profits and a marked cooling of inflationary pressures, both of which can be traced back in part to the low (3 per cent) wage round at the beginning of this year.

The Bundesbank's rigorous efforts in 1981 to curb inflation and eliminate the current account deficit have both borne fruit. The year-on-year inflation rate is currently running around 2½ per cent and the current account, which showed a DM 8bn surplus in 1982 after a DM 14bn deficit in 1981, is expected to remain well in the black in 1983 despite worrying signs that the Federal Republic may not have curbed its growing propensity in recent years to import an ever higher percentage of finished manufactured products.

It was the encouraging trends in inflation and the current account in 1982 which allowed the Bundesbank scope to press ahead consistently from October 1981 until March this year with a relaxation of its monetary policy which took its

key Lombard lending rate—the rate it charges for secured overnight loans to the banks—from the crisis peak of 12 per cent in 1981 to the 5 per cent level set at a controversial meeting of its council in March.

This rapid fall in interest rates was nowhere more enthusiastically welcomed than in the boardrooms of West Germany's hard-pressed banking industry. The period between late 1979 and early 1981 was a nightmare period for large segments of a banking industry which had not reckoned with a sharp rise in interest rates and certainly not anticipated the gathering international debt crises. While the West German banks have been relatively less exposed in Latin America than their U.S. competitors the sovereign risk lending crises, coupled with a protracted domestic corporate bankruptcy wave, would have left some banks looking very, very sick indeed if they had not been able to strengthen their balance sheets and their loan loss provisions from the record—according to the Bundesbank—operating profits they earned in 1982 and the first half of 1983.

Source: The Banker.

TOP BANKS IN THE WORLD AND WEST GERMANY (1982 rankings)

	Assets (less contra accounts) \$m	Deposits \$m
1 Citicorp (U.S.)	120,680	76,538
2 BankAmerica Corp (U.S.)	115,242	84,342
3 BNP (France)	109,944	92,354
4 Credit Agricole (France)	95,507	79,332
5 Credit Lyonnais (France)	96,735	92,450
6 Barclays (UK)	95,328	83,807
7 National Westminster (UK)	87,967	81,040
8 Dai Ichi Kangyo (Japan)	86,925	69,133
9 Societe Generale (France)	85,742	74,654
10 Fuji (Japan)	83,744	65,735
11 Deutsche Bank	83,394	77,247
22 Dresdner Bank	57,608	54,222
26 Westdeutsche LB	55,770	53,431
39 Commerzbank	45,188	43,219
42 Bayerische Vereinsbank	44,369	41,124
50 Bayerische Landesbank	39,710	37,700
54 Bayerische Hypotheken	38,743	37,270
66 DG Bank	29,090	17,208
76 Norddeutsche Landesbank	24,417	23,448
77 Hessische Landesbank	24,188	23,180

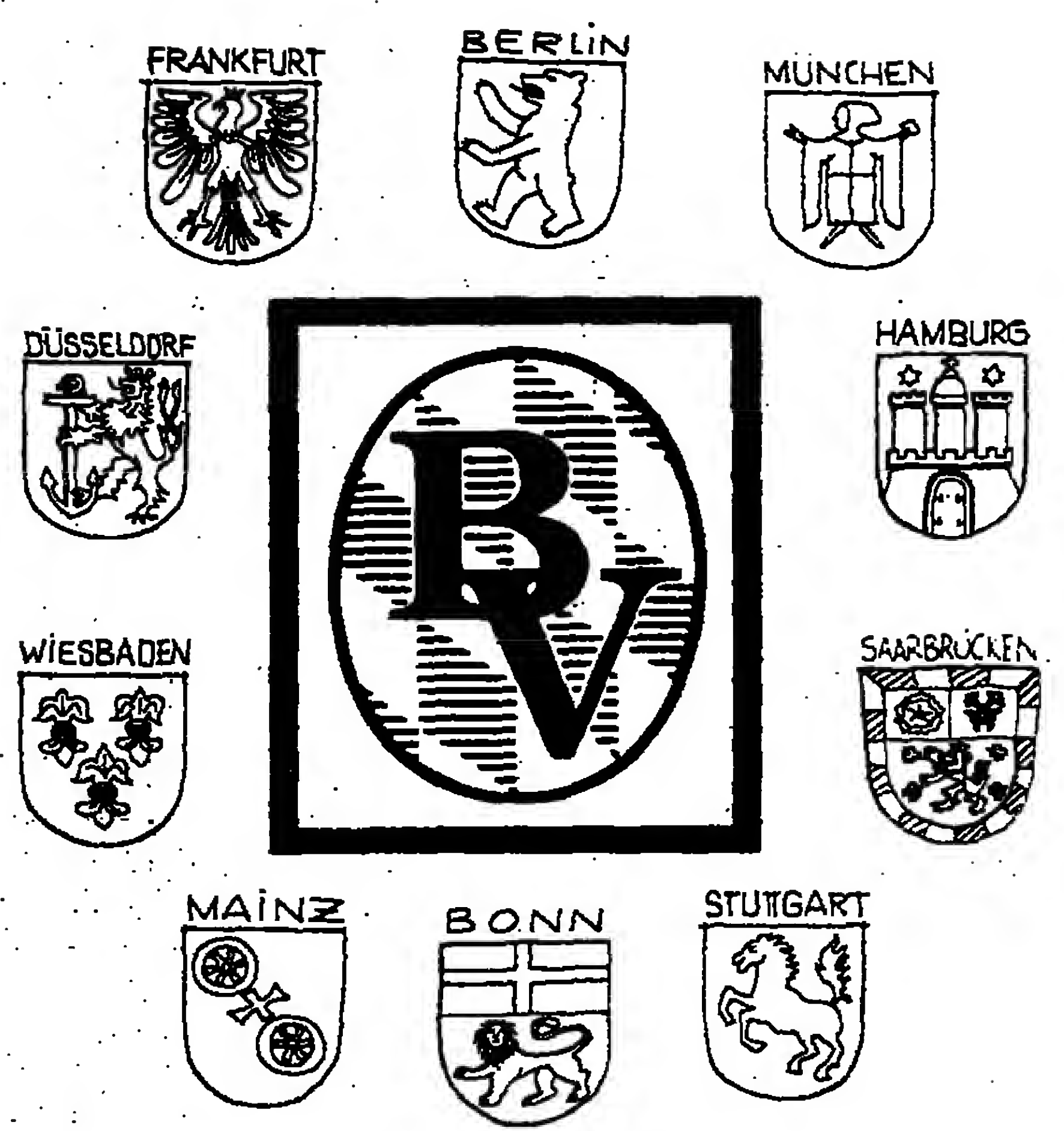
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WEST GERMAN BANKING II

Subtle timing of moves in monetary policy

A CENTRAL BANK which encourages a rapid decline in interest rates during a period when international confidence in the nation's currency is falling and domestic inflation is rising sharply is almost certain to be popular with the financial sector. The Bundesbank, the West German central bank, is no exception.

Over the past year, as the benefits from the severe monetary squeeze it created in 1981 have begun to show up in the form of a rapidly falling inflation rate, a rising current account surplus and overall a strengthening currency, the thrust of monetary policy shifted firmly in the direction of stimulating the economy. As the central bank says in its 1983 annual report "in its monetary policy [the Bundesbank] did not need to give the same consideration to external problems in 1982 as in 1981. In other words, it could pay greater regard to the weakness of domestic economic activity."

The shift in priorities became most marked in the second half of 1982 when (contrary to its own over-optimistic projections)

Bundesbank

STEWART FLEMING

the German economy began to slide deeper into recession as export demand tailed off instead of beginning the slow recovery which was widely expected.

Thus between last August and March this year the central bank cut the Lombard rate at which it lends overnight money to the banks no less than four times, each time by a full percentage point. The cuts, which contrasted sharply with the cautious easing of official rates in the previous nine months, brought the Lombard rate down to 5 per cent and contributed to a rapid acceleration in monetary growth.

By last month the central bank money stock, the key money indicator, was running at an annual rate of 10 per cent, fully three percentage points above target, a rate of expansion which has forced the

financial markets to begin asking themselves, as bond rates have risen again, whether the cyclical low in domestic interest rates has now been reached.

With its determined anti-inflationary monetary policy in 1981 and the rapid loosening of the monetary reins in the second half of 1982 and early 1983 the Bundesbank has helped to create conditions favourable to a revival, albeit gradual, in domestic economic activity in 1983 and 1984. Whether the recovery comes on schedule this time, and whether it will be as strong as some are hoping, is still far from clear.

Weakening export demand—and exports account for around a third of Gross National Product—remains a serious threat to the upturn. Exported goods, such as West Germany's car exports, have experienced in all previous post-war cyclical upturns, can be ruled out this time.

But it is not just a solid basis for economic recovery from a low (under 3 per cent) inflation rate that the central bank has helped to create. The stabilisation of costs and of the currency

has helped to halt the slide in corporate profits which, together with declining interest rates, has eased the financial tensions in the corporate sector.

The financial sector too has been able to breathe a sigh of relief. In 1982 the nation's banks, the core of the financial system, were able to make the most of a fall in interest rates of over four points in short rates and two full points in bond yields to boost dramatically their interest earnings on loans and the securities earnings in the bond markets.

The profits turnaround at the banks was badly needed. In 1980 and 1981 major commercial banks such as Commerzbank and Dresdner Bank had paid a heavy price as a result of ill-judged interest rates speculation in their liability and asset management, seeing their capital ratios squeezed and their dividends cut as a result. Some West German banks would have been in a sorry state indeed if they had had to start making provisions against sovereign risk loans without the benefit of 1982's interest rate induced operating profits surge. As it

was they were able to begin the process of putting aside massive loan loss provisions against foreign risks, and of absorbing the losses of close to DM 2bn on the financial collapse of AEG-Telefunken.

If the Bundesbank's monetary policy has provided some banks with a much needed breathing space, the Bundesbank, maintaining its independence from the banks, has kept the pressure on for a tightening of capital adequacy requirements. Moreover, it has only nudged the banks gently into awareness of their responsibilities towards the international financial system in terms of supporting rescue packages for developing countries and providing against rescheduled debts. The responsibility for taking decisions has been left clearly with the banks themselves, hence the differences between banks in Munich and Bavaria over what to do about inter-bank lines to countries such as Brazil. The Bavarian banks have in general wanted to cut them.

Domestically too the Bundesbank has kept its independence intact. During the tricky period when the Social Democratic-led coalition government fell in the autumn of 1982 and the election of a Right-of-centred Government in March, the Bundesbank timed its monetary policy moves subtly. The impression was avoided that it favoured one side or the other but the much needed monetary relaxation, which no doubt helped elect a new ruling coalition, was pursued.

This political sensitivity has helped to strengthen the reputation of Herr Karl Otto Pöhl, the central bank president, who took office at the beginning of 1980 amid suspicions that his Social Democratic Party background might prejudice the Bundesbank's independent role. In the event some of the harshest criticism of Herr Pöhl was to be heard among his old political allies.

This is not to suggest that the Bundesbank is hand in glove with the financial sector. Already the banks are restless about the central bank's attitude towards the excessive growth of the money supply, fearing that the tightening of liquidity in the past four months could presage more aggressive monetary measures later in the year. With real growth of only 1 per cent expected for the year—and even that far from certain—the

central bank will want to move cautiously.

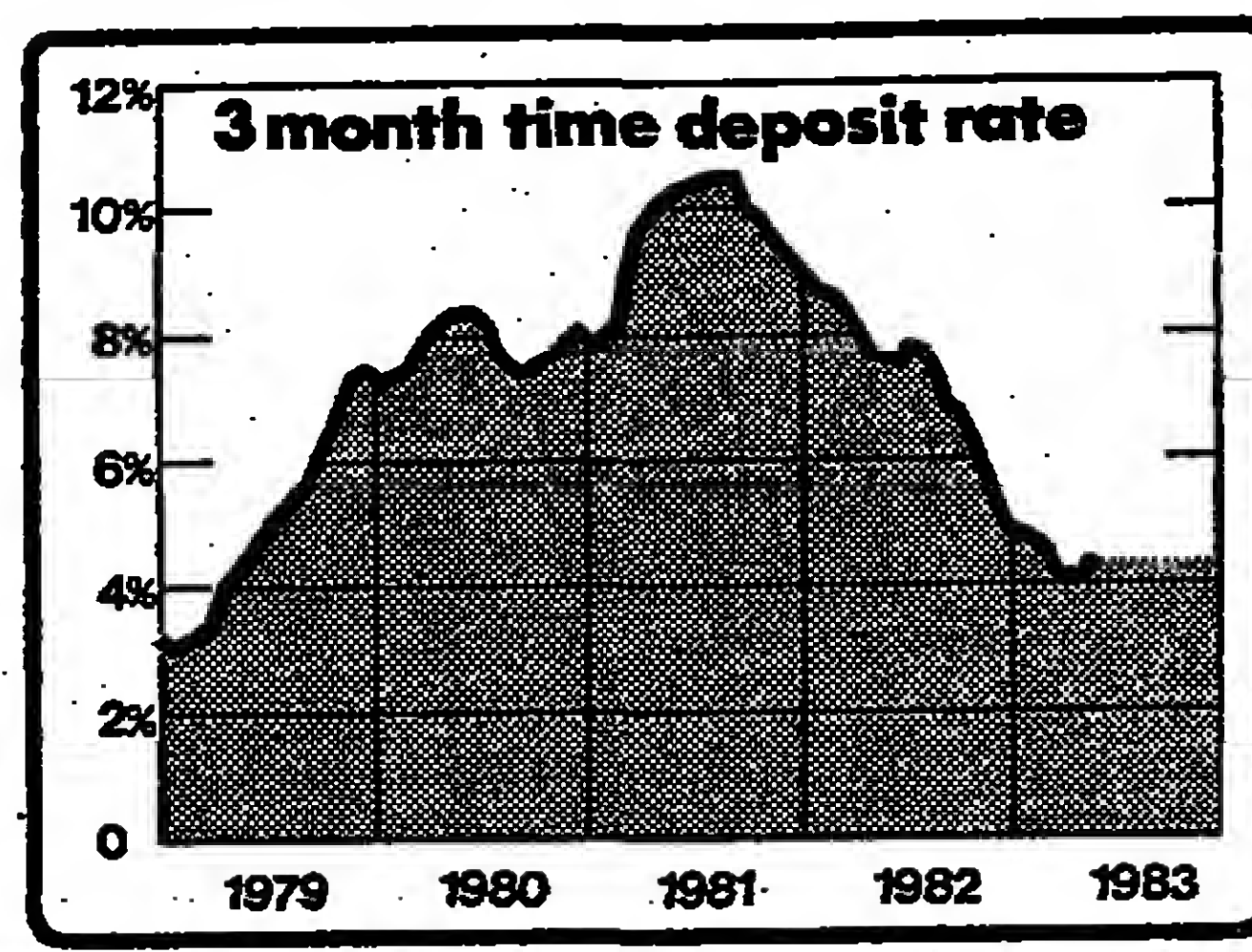
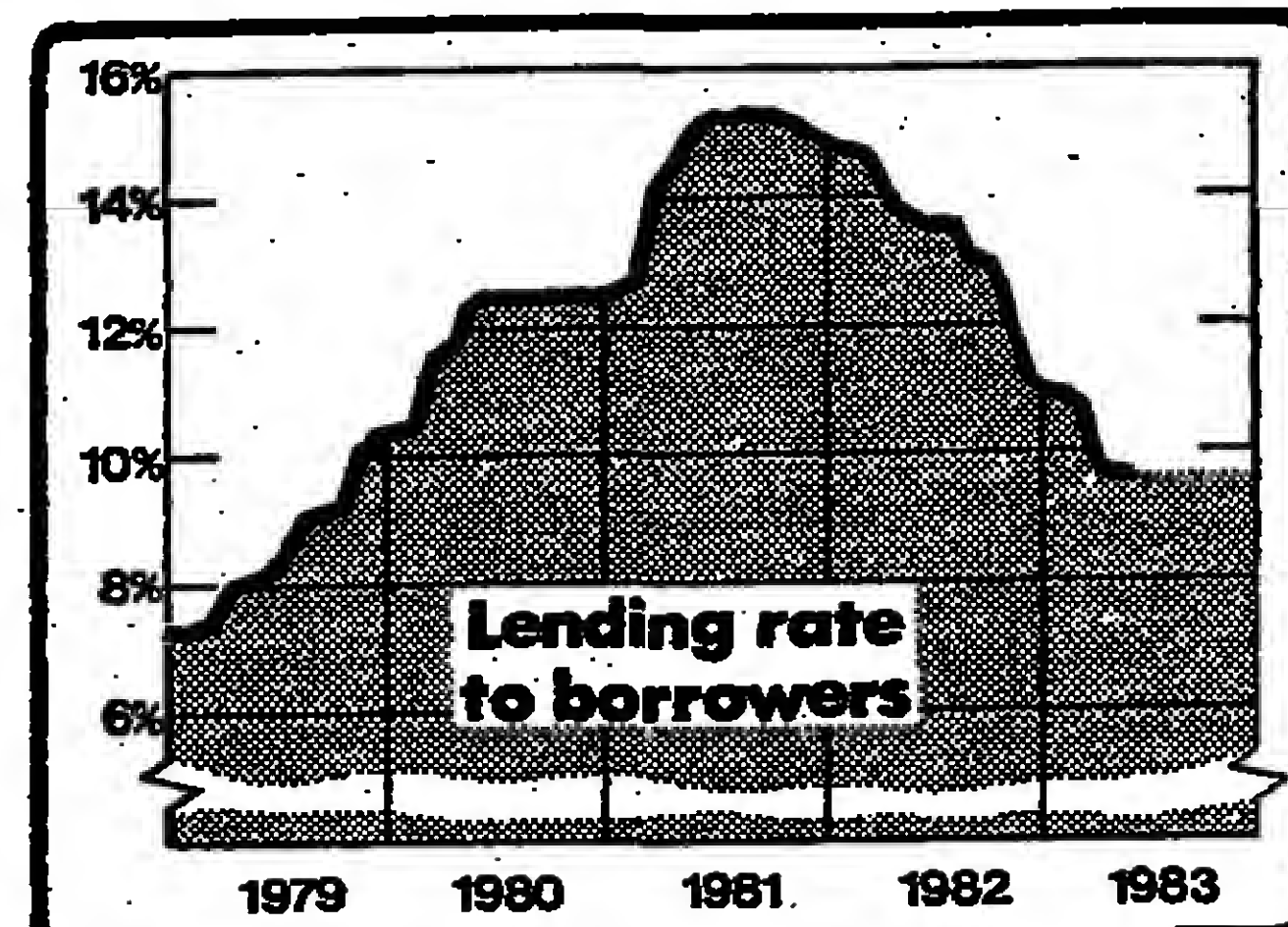
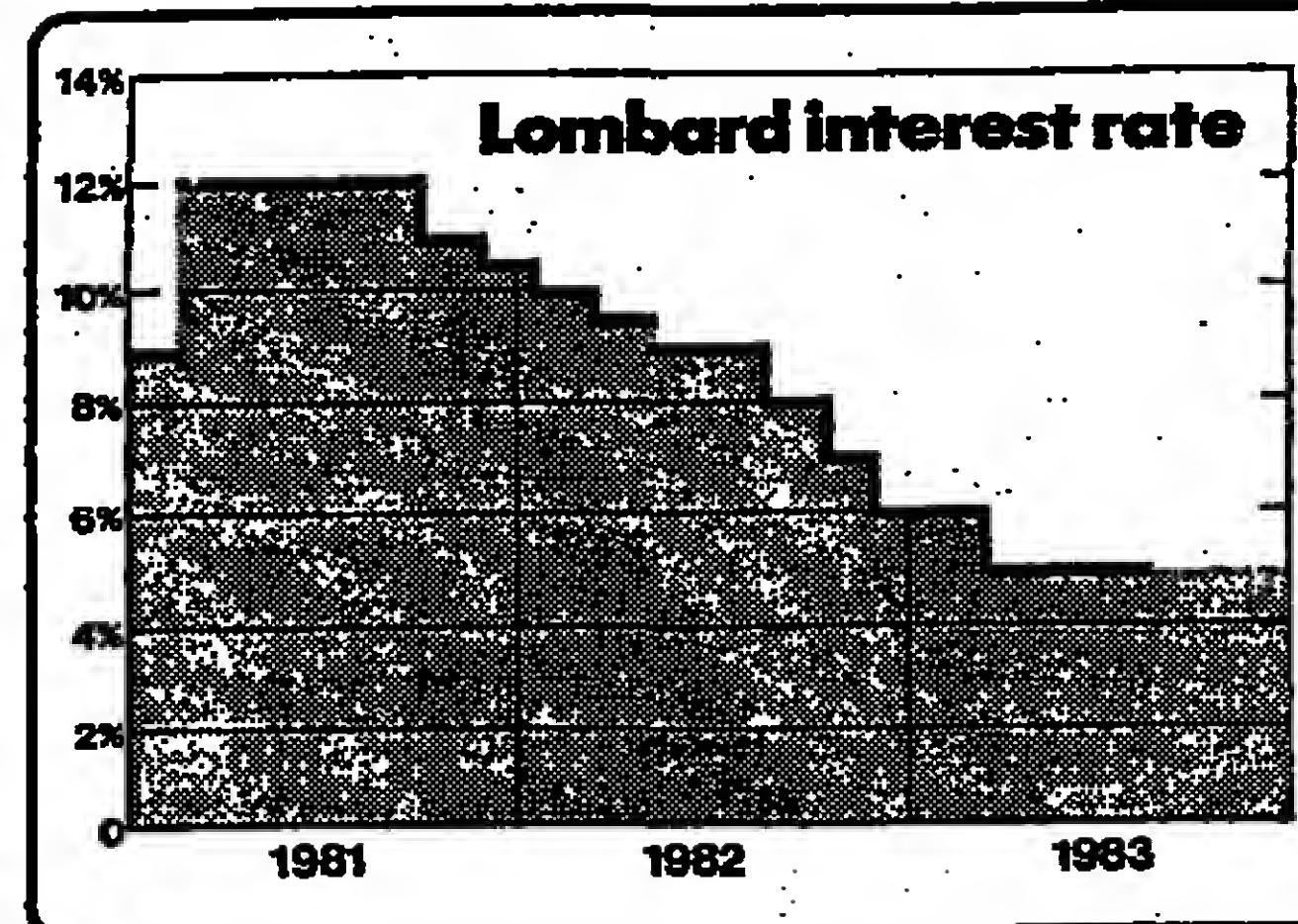
But as the mark has fallen against the dollar to new lows this year in the past few years it has become clear that U.S. interest rates are again exerting a considerable influence on the German markets and posing difficult monetary problems for the Bundesbank, which has already been forced to tighten liquidity.

In the international arena as well as at home, the central bank's policymakers have been emphasising the virtues of financial discipline. The Bundesbank is a voice which carries considerable weight since it shares the direct responsibility for the Federal Republic's membership and subscriptions to the International Monetary Fund (IMF) as well as being of course a member of the Bank for International Settlements.

In its annual report this year the Bundesbank made no bones about the importance it attaches to adjustment and financial discipline in those developing countries like Mexico, Brazil and Argentina which have allowed their financial affairs to get out of control. It talks of "strict observance" of IMF conditions, emphasises that "the main efforts must of course be undertaken by the debtor countries themselves," and underlines that "the IMF must not be tempted by the debtor countries or the commercial banks to take over a part of the outstanding debts."

In staking out its position emphasising financial stability the central bank has, however, been pragmatic on other fronts. In March of this year, as much to placate the French and weaken French protectionist tendencies as for domestic policy reasons, the Bundesbank cut its leading domestic interest rates by a full percentage point, a controversial move within the Bundesbank itself, which contributed however to agreement on the realignment of the European Monetary System, helped to keep France in the EMS and blunted French protectionist sentiments.

Whether it pays off in the longer term remains to be seen, for already the debate about when and whether a new franc devaluation will be needed has begun in Paris. With exports from Germany weakening, a further revaluation of the Mark is scarcely something German industrialists would welcome.



Post-election glow begins to cool

CONTINUED FROM PREVIOUS PAGE

To a very considerable extent the sharp improvement in operating earnings in this period reflected the banks' determined exploitation of a favourable falling interest rate environment which allowed them both to widen their margins on lending and to profit handsomely from bond trading activities.

That the gains in operating profitability did not funnel through into net profits or the itchy fingers of their shareholders reflected the determination of the banks to build up their loan loss provisions and come to terms with the massive loan loss write-offs required by the domestic bankruptcy wave. Although West German banks have taken different views on the controversial issue of restoring money market lines to Brazil, in common with their peers around the world the big international banks have recognised that it is in their self-

interest to support the sovereign risk rescue packages. As Dr Walter Seipp, chief executive of Commerzbank, puts it: "basically there is a clear understanding among the banks that the banking sector has to play its role in the rescue programmes in full co-operation with the IMF as a supranational policeman."

The easing of tensions in the West German financial markets over the past year has left many German bankers with the feeling that they have learnt some hard but important lessons in the past three troubled years. Partly under the influence of an anticipated toughening of capital adequacy requirements the banks are paying much more attention to profits rather than assets growth, for example, and there has at many banks been a cautious shift of emphasis in international business towards increasing exposure in Asia and looking much more

carefully at the North American markets.

The banks realise, however, that the easy profit gains resulting from the cyclical interest rate downturn may well be over. A domestic economic upswing and stronger credit demand could, however, materialise and offset some narrowing in lending margins.

What is still lacking in the financial sector, however, is a critical appreciation of the immaturity of West Germany's financial markets as a source of equity finance and the extent to which correcting this historically determined deficiency will require more than tinkering with the Federal tax system.

These deficiencies have not been exposed primarily by the much commented upon absence of an effective venture capital market—at best, even in the U.S. venture capital makes an important but by no means decisive contribution to indus-

trial innovation and thus long-term economic growth. A much more important factor is the primitive West German stock market which plays a negligible role as a source of new equity for companies. Partly because of archaic accountancy standards and profound conservatism, the Stock Market also plays a limited role in promoting the efficient distribution of new equity between the successful and less successful companies. It thus slows down the process of industrial change and protects managements which have failed to keep abreast of the competition.

In their structure and traditions West Germany's financial markets remain deeply under the influence of the problems posed by post-war economic reconstruction rather than the world-wide competition and technological change which is staring West-German industry in the face.



Astronaut White is shown performing his spectacular space feat during the third orbit of the Gemini-Titan 4 flight.

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WEST GERMAN BANKING IV

Now a major force in retail banking

WHILE the savings banks have effectively seen off the competition from the commercial banks — to the extent that the big banks have gained a relatively small share of the market and are having some difficulty even in hanging on to it — the co-operative banks have been a more dynamic competitor. Although first established in the past century it is only since the merger in 1972 of the agricultural co-operatives, the *Raiffeisen*, and the urban co-operatives, the *Volksbanken*, that they became a major force in retail banking. A further boost came when a few years later they were permitted to extend loans to non-members.

Over the past 30 years, and more especially since 1972, a series of mergers has reduced the number of co-operatives from over 26,000 to a current total of 3,823. In the process the size of each has increased so that the average balance-sheet total is now some DM90m and some 30 employees. Membership has also increased, doubling over the past 10 years to 2,500 members per co-operative. None the less the individual co-operative bank is much smaller than a savings bank and serves a much smaller area which they claim give them greater flexibility and independence than their competitors. Their strength lies in their very big branch network, which is the most concentrated in Europe with 15,979 branches and 19,802 outlets. An additional strength is their direct access to retail customers through their 9.5m member which provides their capital and sit on their supervisory boards.

Set up initially to provide financial assistance to workers on the land in the case of the *Raiffeisen* (named after the founder) and joiners and shoe-

Co-operative banks

MARGARET HUGHES

makers in the case of the *Volksbanken* (people's bank) their main activity now is in the collection of savings from farmers, artisans, the self-employed and also increasingly the middle classes. These savings account for 60 per cent of their deposit base. On the lending side their main customers are small to medium-sized companies and again the self-employed where they have nearly 15 per cent of the market.

Through their nine regional banks, the *Zentralbanken*, much along the lines of the savings banks, they are able to operate as universal banks. The largest of these, the *DG Deutsche Genossenschaftsbank* of Frankfurt is the eighth largest bank in West Germany. It does a lot of international business, including syndicated loans and is able to issue its own bonds on the West German capital market.

The co-operative banks also own one of the largest mortgage banks and one of the largest building and loan associations.

Regarded for so long as the "sleeping giants" of the West German banking community, the co-operatives have gone from strength to strength once they "woke up" and started exploiting their latent potential. They have gradually built up, and still building, their market share to the point where they now have 23.6 per cent of the banking community's balance sheet total, against only

5.6 per cent in 1960. They are running neck and neck with the commercial banks in the deposits market, with 26.8 per cent of the total, and have 23.3 per cent of the loans business. Last year they continued to put in above-average performance and increase further their share of the retail banking business. The rise in their balance sheet total was less than in the previous three years but was still up 9 per cent on 1981, increasing their market share by 0.6 per cent. Their deposits were up 10 per cent and credits by 6.4 per cent increasing their market shares by 0.8 per cent and 0.3 per cent respectively. The Co-operative Banks Association (DGRV) is predicting higher growth rates this year.

Although they will be adapting their operation to the new electronic technology the co-operative banks retain their commitment to their branch network, which represents over 44 per cent of all bank outlets in West Germany. They view their branch network as an appreciating asset as their competitors concentrate more and more on promoting the quality of their service. The co-operatives emphasise the human touch through the contacts which they have via the co-operative associations, sports clubs and other local associations.

Although the commercial banks are perhaps suffering most from the co-operatives' inroads — they now have 25 per cent of the current account market and 23 per cent of the cheque cards in issue — the savings banks are not immune either. The emergence of the co-operatives has, at the very least, curbed their own growth. A measure of the competition

MARKET SHARE OF DOMESTIC DEPOSITS (per cent)			
	End-1980	End-1982	
Big commercial banks:			
Sight and time deposits	13.4	12.1	
Savings deposits and bonds	9.4	9.1	
Short-term loans	16.3	15.5	
Medium and long-term loans	7.5	6.2	
Co-operative banks:			
Sight and time deposits	12.6	14.8	
Savings deposits and bonds	23.1	23.3	
Short-term loans	18.7	18.9	
Medium and long-term loans	9.8	9.9	
Savings banks:			
Sight and time deposits	17.8	18.7	
Savings deposits and bonds	54.7	55.1	
Of which:			
Savings deposits	52.0	52.6	
Short-term deposits	24.7	24.6	
Medium and long-term deposits	23.0	22.6	

Source: Savings Banks Association.

which they feel from the co-operatives are the various new savings schemes which they introduced in the past few years, though competition from higher interest paying time deposits and bonds has been another factor.

The most recent innovation, the Golden Fund, offered by some savings banks, which pays rates close to money market rates if savings are kept in for one year, has aroused a good deal of controversy as banks see the cheap savings deposits which were once so attractive because of their relative cheapness becoming more and more expensive. Opinions are split even within the savings banks between those which agree with this argument and others who feel that their market share must be held on to at all costs, particularly with the threat of new competition looming.

Competition

Moreover, while the savings banks may regard the co-operatives as fair, and almost equal, competitors (they still dispute the advantage which the co-operatives have under the regulation whereby permitted loan books are a multiple of equity capital) the same cannot be said for their attitude towards the Post Office. Their views are shared by both the co-operatives and commercial banks. All claim that the savings banks have over the past year or so become aggressive competitors, albeit from a low base.

The Post Office, which has two main financial arms — the Post Office Savings Bank and the postal giro — is keen to become a full-service bank. Its postal giro is already a cheap and effective competitor of the banks helped by the fact that the Government uses it to distribute pensions and other pay-

ments. Although some eight years late in joining it, it has since 1976 been a partner in the Eurocheque system. Herr Wolfgang Starke, general manager of the Savings Bank Association, says the invitation to the Post Office to join the system was a "grave mistake" for the credit industry since "it has given them the instrument for becoming bankers."

The Post Office is not allowed to make loans but since it has been able to offer its account holders a Eurocheque facility it has had to allow overdrafts to ensure that the cheques are not returned. A limit of DM 500 was set on this overdraft but the Post Office has now applied for permission from the postal authority to increase this to DM 2,500. An additional problem for the banks is the advantage which they feel the Post Office will have once home banking starts up since it will be based on the Post Office's telephone lines.

Their main argument against the Post Office is that with its monopoly of the post and telecommunications services it will not be operating on the same cost basis as the banks. In the banks' view it will be all too easy to disguise costs — even, they say, were the Post Office to know its costs — and offer cheaper banking services to the consumer.

As a sign of the increasingly competitive atmosphere some banks are becoming resigned to re-opening on Saturdays. The Post Offices are open on Saturdays and in some locations on Sundays, too. As Herr Starke comments wryly: "If the banks are serious in their emphasis on personal service, they will have to offer the customer what he wants, because if the traditional banks don't, someone else will soon be able to — and will."

In the forefront of new development

Savings banks

MARGARET HUGHES

HISTORICALLY the savings banks have dominated the Federal Republic's retail banking. By law they are required to encourage savings and provide credit for the poorer members of society as well as finance the local community. Although this remains the cornerstone of their business they have over the past 50 years or so become full-scale commercial banks.

With some exceptions, they are not allowed to operate outside the regional boundaries of their guaranteeing local authority. Nevertheless, through their regional banks, the *Girozentralen* or *Landesbanken*, which act as clearing houses and liquidity managers to the savings banks, they have become increasingly involved in wholesale and international business. Over the years the number of savings banks has decreased as a result of mergers creating larger individual units. There are now some 400 banks with 17,000 retail outlets.

Their aggregate balance sheet at the end of last year stood at DM 583.6bn or 39 per cent of the banking community's total. Savings banks have over two thirds of the business volume of all the commercial banks put together. Over 50 per cent of West Germany's current account holders bank with them; they have 38 per cent of sight deposits, the largest share — 41 per cent — of non-cash payments and have issued over half the Eurocheque cards in West Germany.

Savings banks have 46 per cent of the total savings market, 55 per cent of the savings deposit business, 41 per cent of the consumer credit business, over 50 per cent of loans to small businesses and some 60 per cent of municipal loans. It is a stronghold which they do not intend to relinquish. To this end the Savings Banks Association has made sure that it is in the forefront of new development in banking, flexing the muscles of its dominant position gives it when it needs to protect its own interests.

They have been the first to instal automated teller machines (ATMs). By the end of the year they expect to have 2,000 in operation compared with a targeted 100 by the commercial banks, while the co-

operative banks are still operating them on a trial basis.

In spite of being highly competitive the Federal Republic's various banking groups have agreed to co-operate on payments systems. They have already done so with the issuing of the multicurrency Eurocheque cards. When first introduced in 1968, these began as a cheque guarantee card but are now equipped with a magnetic strip so that they can also be used as ATM cards and eventually for point of sale transactions (EFTPOS). As a result of the interbank co-operation the Eurocheque card can be used at any bank or post office within the country (as well as in Europe) either to cash a cheque or to draw money from an ATM. Although Deutsche Bank was heavily involved in the launch of the Eurocheque card it is the savings banks which have issued more than half of the 16m or so in circulation.

Logical view

The decision to co-operate further and share ATMs was taken — according to Herr Wolfgang Starke, general manager of Savings Bank Association — because "although we are intensely competitive we could all see that investing on separate ATMs would be too costly. We wanted to avoid the kind of situation which you see in Britain or France where there are several ATMs belonging to competing banks on every street corner."

Though this kind of logical approach may reduce investment overheads it is not without its problems, as Herr Starke acknowledges, if only because of the varying speeds of installation by the different banks and even within the same bank grouping. Although the Savings Banks Association, like the comparable association representing the co-operative banks, is a useful negotiating arm when discussing co-

operation with the big commercial and other banks it cannot dictate policy to individual savings banks. Not all are in favour of ATMs. For the system to work effectively and to the benefit of the consumer ATMs have to be available throughout the country so that the consumer can draw money 24 hours a day wherever he or she may be.

Herr Starke, who has been in the forefront of the new technological development, is convinced that any future co-operation such as for EFTPOS will have to cover the technical implementation also. In future, he says, "We can only co-operate if we have a common level of technological and organisational development as well as a willingness to fulfil the commitments we enter into. If one co-operation pact doesn't include the technical aspects then we might as well forget any future co-operation."

While they have so far co-operated both on the Eurocheque card, and on the Eurocard, which operates as a travel and entertainment card, and are united in their opposition to Visa's attempts to penetrate their market, the West German banks have failed to agree on a common traveller's cheque. The main disagreement has been between the commercial and savings banks which for the time being, at least, have gone their separate ways.

Deutsche Bank has proposed a Europe-wide consortium bank which would buy out Midland Bank's Thomas Cook subsidiary to form a new traveller's cheque system. The savings banks did not like the proposals, not least because of the cost of having a processing centre in West Germany, and pulled out. Without them the scheme collapsed. An alternative whereby banks would issue travellers cheques in association with American Express was rejected by the Federal Cartel Office.

For the time being the banks have gone their separate ways, with the commercial banks selling Thomas Cook cheques and the savings and co-operative banks selling American Express travellers cheques. It is clear, however, that the issue is by no means closed and some joint action in future is still likely.

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the "small" team with big resources

Savings movement remains the dominant force

THE OVERHANGING economic recession combined with the lowering of interest rates have been the main influence in the past year on the West German retail banking industry. New competitors coupled with the technological revolution are other factors which are changing the overall character of the Federal Republic's consumer finance business.

Demand for credit has been sluggish while the propensity to save has revived—although the lower interest rates have caused a switch to shorter maturities. There has been a general reversal of 1981 trends which has eased liquidity for the banks. Savings increased last year by 6.7 per cent to DM 1,064bn, which was both higher than the previous year's rise of 5.5 per cent and the growth in credits. These rose by only 3.7

RETAIL BANKING (DM bn—end-1982)			
	Balance	Loans	Deposits
Savings banks	585.6	392.4	484.2
Co-operative banks	301.6	198.5	247.1
Big commercial banks	222.0	135.4	141.7

adverse experiences of sovereign and corporate debt, consumer deposits have become increasingly attractive, though they are having some difficulty in hanging on to their market share.

Retail banking

MARGARET HUGHES

per cent to DM 1,709bn against an increase of 9.3 per cent in 1981.

As usual the savings banks dominated the business with a 46 per cent share of the savings market, 41 per cent of the credits market and 39 per cent of assets.

The second biggest force is the co-operative movement, which since the merger of the urban and commercial co-operatives has become the most dynamic of the three main groups involved in retail banking.

The commercial banks, meanwhile, are relative newcomers to retail banking with a correspondingly smaller share of the market. Traditionally associated with industry and big business, they made their initial inroads with the lifting of restrictions on branching in 1963. They rapidly expanded their branch network from 787 to a current level of over 3,000, though in recent years the number of branches has been fairly static.

Compared with their main competitors—the savings and co-operative banks—their branch network remains very small, especially in the rural areas. None the less retail banking has become a major part of the commercial banks' business, accounting for between a third and a half of their deposits. With the recent

eight per cent—was for house-building. This market is dominated by the mortgage banks and the Bausparkassen (building and loan associations). The private ones, like the mortgage banks, are owned wholly or partly by the commercial banks or other financial institutions such as insurance companies while the public ones—the Landesbausparkassen—are owned by the savings banks. Neither of these two groups nor individual savings banks (which are also traditional providers of home loans) will lend the full amount required to buy or build a house. But increasingly the retail banks are now offering one-stop packages in association with their subsidiaries or associates, with bank loans being used to supplement the normal housing loans.

As far as the retail banks' loans to the business sector is concerned, there has latterly been a much bigger growth in credit demand from small to medium-sized companies and the self-employed than from big companies. This sector, traditionally the domain of the co-operatives and savings banks, has become the target for major marketing efforts. All three banking groups are offering special medium-sized loan schemes.

Since the structure of retail banking in West Germany that there is little potential for expanding the market. Beyond the youth market of school leavers, apprentices and graduates, along with new small businesses, it is a tough task to win business from competitors. The Federal Republic is already a highly banked country. As much as 97 per cent of the population has at least one bank account—compared with 60 per cent in the UK, for instance. As many as 88 per cent have more than one savings account while 80 per cent of the working population are paid through the banking system. With the extensive branch network of the co-operatives and savings banks there is one bank branch for every 1,375 persons, compared with one for every 3,400 in the UK.

The overall emphasis has thus been one of fighting to hang on to market share. This savings banks by and large have managed to do but the commercial banks are seeing their eroded by the co-operatives—the former sleeping giants which are now realising the potential of their huge branch

On the credits side demand from private individuals increased at twice that from businesses—by nearly 7 per cent—although in volume terms the amount lent to business at DM 600bn was more than four times as much as that extended in consumer credit. Loans for house building showed an above average increase of nearly 8 per cent, in large part thanks to the fresh incentives for house building introduced last autumn by the new government. This was also reflected in the strong growth of just under 10 per cent in the loan books of the private mortgage banks and building and loan associations.

The growth achieved by the mortgage banks reflects the declared policy of their main shareholders—the big commercial banks—to direct long-term business towards these subsidiaries. As a result, their own long-term credits business showed a decline of nearly 7 per cent last year. The improved performance of the mortgage banks, however, which helped them improve their market share marginally to almost 17 per cent, was not enough to offset the general stagnation on the Big Three's credit business, which increased by less than 1 per cent.

By contrast the savings banks, which are strongest in short to medium-term lending, showed above average growth last year in long-term loans, as did the co-operatives, which saw a strong upturn in this sector towards the end of the year. This higher growth rate in long-term loans, a reversal of 1981 when short to medium-term loans grew faster, is attributed to a small increase in investment activity prompting householders and businesses to convert their loans into longer term borrowings. The highest growth in the retail credits business—nearly

network and close direct links with the public. But with the advent of new technology the retail bankers are becoming concerned over competition from new quarters.

They see the greatest threat from the Post Office and those banks which do not at present have any branch network to speak of but which will be able to reach a wide spread of potential customers once electronic banking is underway. West Germany is somewhat behind Britain, France and even Sweden and Spain in its electronic development. Only some 670 automated teller machines and cash dispensers have been installed to date, against 3,510 in Britain and 3,321 in France while home banking, which it had hoped to start this year, has been postponed until the spring of next year because of the problems of adapting the software to the Post Office's Bildschirmtext (BTX) central computer supplied by IBM.

But when the problems are eventually ironed out BTX will provide the consumer with home banking through a television set and telephone line. This could be of direct benefit to the commercial banks which at present are unable to reach

MARKET SHARES IN RETAIL BANKING (per cent)											
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Balance sheet assets:											
Co-operative banks	18.9	18.2	18.6	18.7	19.0	19.3	19.7	20.4	21.4	22.0	22.6
Savings banks	38.9	38.3	38.6	38.7	38.6	38.0	37.6	37.7	38.3	38.6	39.0
Commercial banks	43.1	43.5	42.8	42.6	42.4	42.7	42.7	41.9	40.3	39.4	38.4
Deposits:											
Co-operative banks	20.5	21.1	21.9	22.1	22.7	23.1	23.5	24.3	25.3	26.0	26.8
Savings banks	46.0	45.7	46.7	46.4	46.5	46.1	45.4	45.6	46.1	45.8	46.2
Commercial banks	33.2	33.2	31.4	31.5	30.8	30.8	31.1	30.1	28.6	28.2	27.0
Loans:											
Co-operative banks	18.6	19.1	19.1	19.2	19.8	20.3	20.7	21.6	22.3	23.0	23.3
Savings banks	39.9	40.5	40.7	41.2	40.7	40.2	39.9	40.0	40.5	40.9	41.2
Commercial banks	41.5	40.4	40.2	39.6	39.5	39.5	39.4	38.4	37.1	36.1	35.5

Source: Association of Credit Co-operatives.

50 per cent of the retail banking market through their limited branch network. For the savings banks and co-operatives the new technology poses something of a dilemma. Home banking could make the very core of their banking operations—their branch networks—at best costly, at worst obsolete.

In the case of the co-operative banks, with their very personalised approach through small individual branches, the new technology may be of a less immediate threat, particularly as their present approach is working very successfully. The

savings banks, with fewer branches than the co-operatives and of larger individual size but far more than the commercial banks, is somewhat caught in the middle. They cannot afford to reduce their branch network while the co-operatives maintain theirs, yet they face increased competition from the commercial banks which will now be able to reach a wider market at lower cost, not to mention the new entrants.

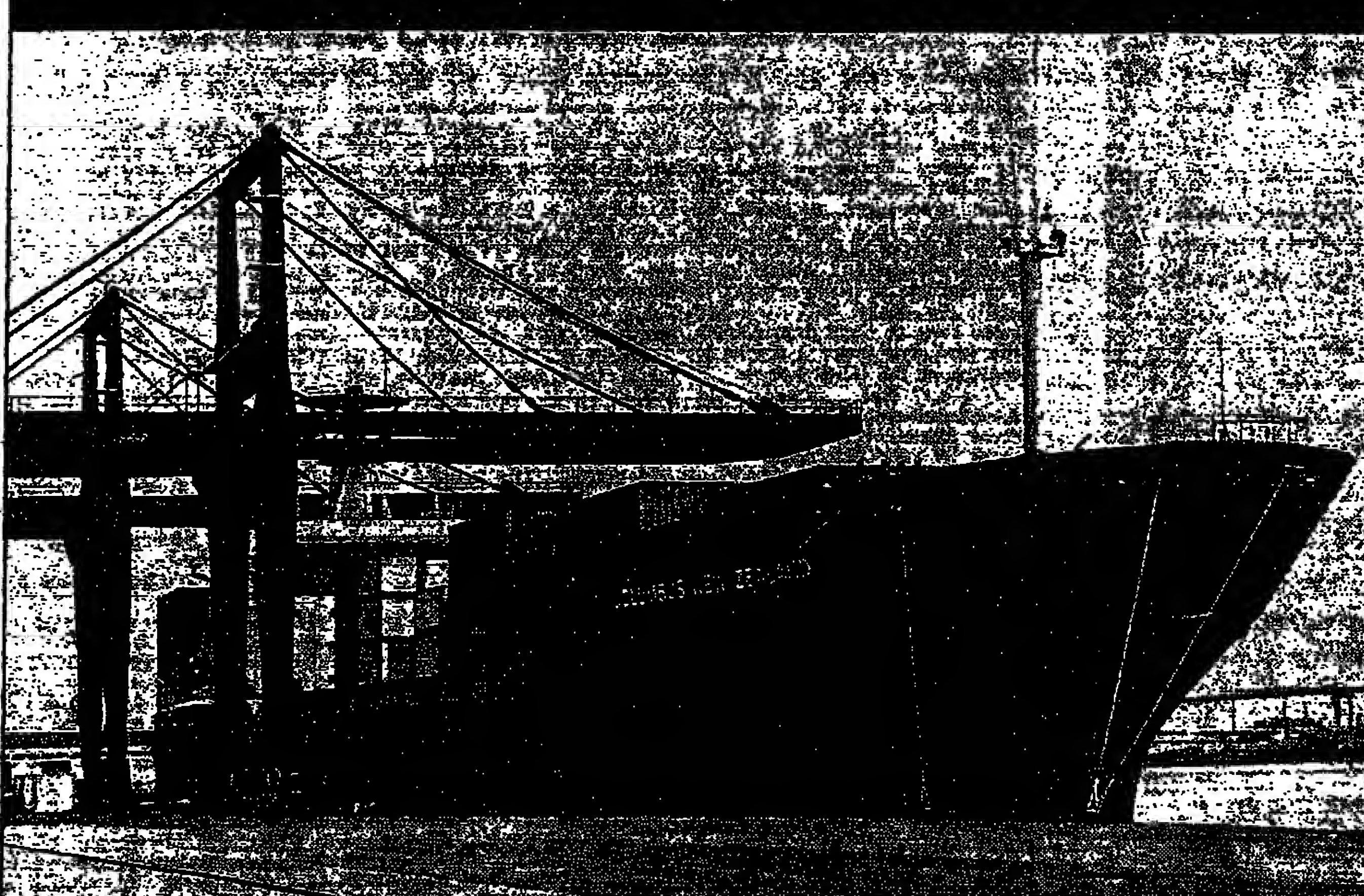
The savings banks stress that theirs will be a two-pronged approach using new technology to streamline the routine operations which will free their

branch staff to provide a more personalised approach for the more specialised services. With little to choose between the products offered by the three main banking groups, all of which, with the exception of one or two small differences dictated by their incorporation, operate as universal banks offering full banking services, competition is, in any case, centred on the quality of those services. Meanwhile, the savings movement is making sure that it remains the dominant force in the movement by setting the pace in technological and other developments.



Head office of the Municipal Savings Bank (Sparkasse) in Düsseldorf. In a country that is already fully banked the battle in retail banking is to hold on to market share. The savings banks have managed to do so but the commercial banks are under strong challenge from the co-operatives.

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cover and short, medium, and long-term fixed-rate DM loans to buyers' and sellers' credits, letters of credit, and a forfait financing.

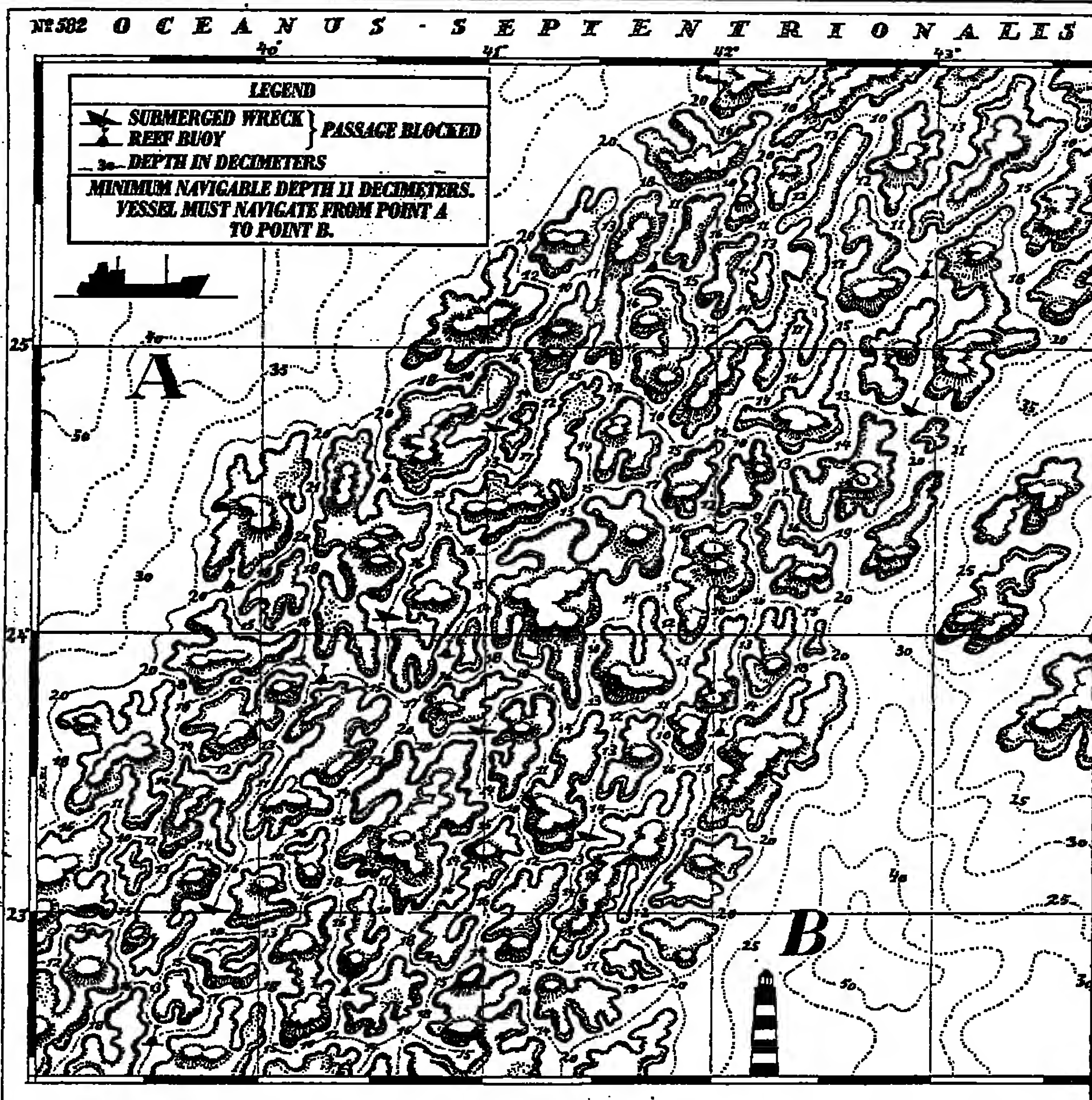
For export-related Eurocredits, we draw on the facilities of our Eurobanking subsidiary in Luxembourg, Badische Kommunale Landesbank International S.A.

Our subsidiary in Zurich, Forfaitierung und Finanz AG (FFZ), concentrates on a forfait financing, a sound alternative for exporters seeking protection against hazards arising in long-term trade transactions such as currency losses and political risks. Our London branch assists in trade financing (including forfaiting), provides foreign exchange services, and is active in the Eurocurrency market.

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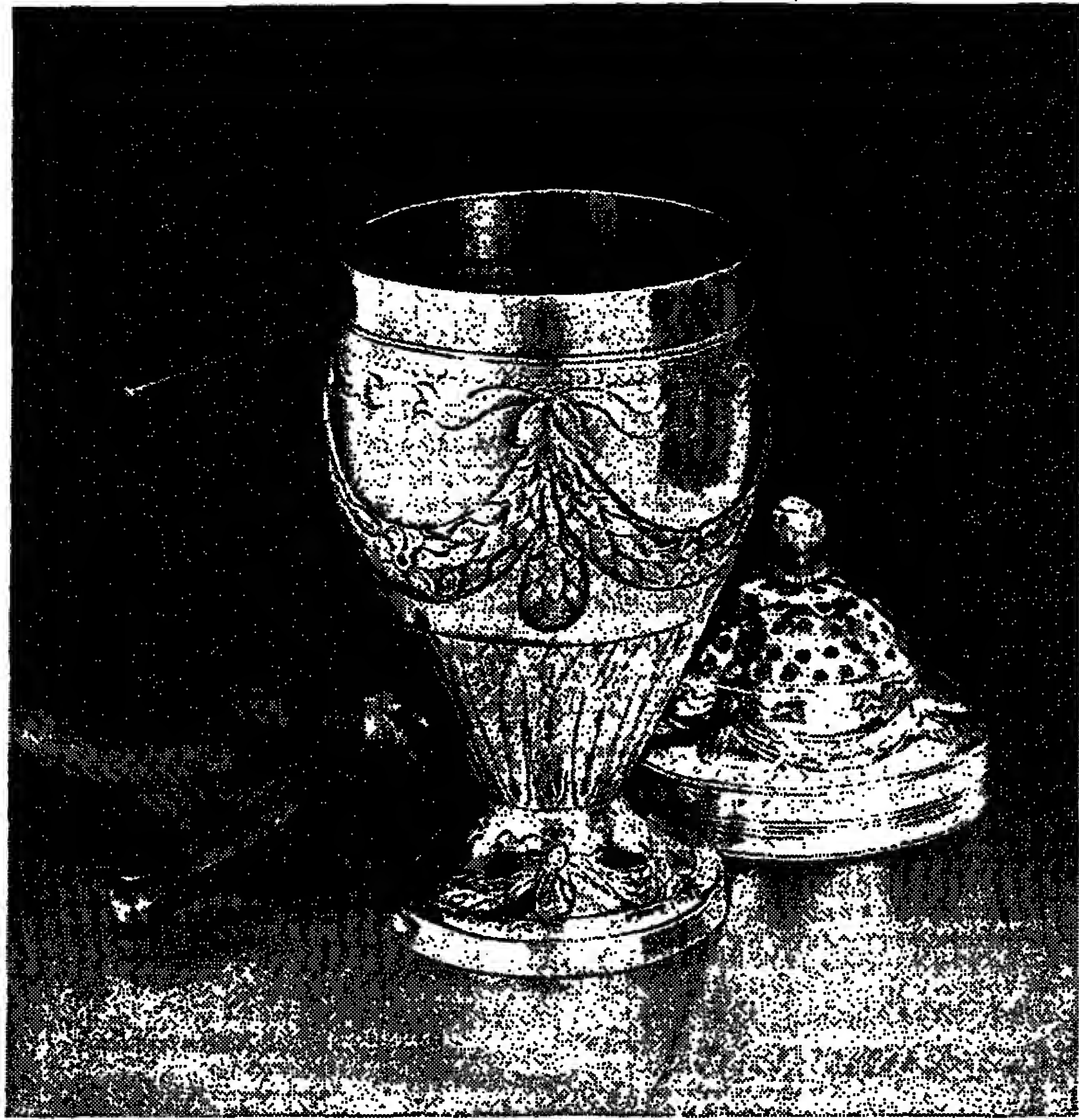
Throughout the last years, we consistently pursued a policy of "quality, not quantity". As a result, during the past year, our business development was good, and the period was clearly signposted by our efforts to consolidate our position. Because we regard sound policies as the foundation of our operations, we have strengthened our base for the future. And we will continue to be our customers' flexible, reliable partner in handling those tricky business problems.

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WEST GERMAN BANKING VI

Pleas for more liberal line

HAMBURG, an elegant city swept by sea breezes, is especially sensitive to shifts in the world's economic and trading climate. With its proud maritime tradition, it is hurt economically and psychologically by the chill effects of Asian competition on its shipyards. As a merchant trading centre it is used to scanning distant continents for trading and financing opportunities. It also houses the headquarters of that unusual financial institution, Hermes, to which West German exporters have been looking increasingly for help with problems of trade finance.

Politicians are apt to shrug their shoulders helplessly at the plight of the shipyards, notably those at Hamburg, Bremen and Kiel, where jobs are continuing to dwindle. But the general rise in unemployment in West Germany to over 2m is part of the reason why Hermes and its government backers have come under pressure to ease conditions for export credit insurance—the

decided earlier this year that Hermes export credit insurance should take account not only of the risks involved in export deals but the employment and broad economic benefits as well. It indicated that export credit insurance should not be blocked totally to countries whose debts are being rescheduled with the help of the International Monetary Fund and the private banks. The Government has also raised the upper limit which Hermes' total outstanding insurance coverage may reach from DM 160bn to DM 185bn.

At the same time the holders of the purse strings in Bonn have been laying the ground-work for an increase in the financial terms which exporters must pay to get Hermes coverage, in view of the higher risks these days. The Finance and Economics Ministries have been alerting exporters that they must reckon in future with a rise in Hermes' fees by somewhere between 30 and 50 per cent. This could add up to an extra DM 350m a year.

The West German Industry Association has been arguing against an increase in Hermes' fees. It believes exporters should be spared extra costs at a time when it is particularly difficult to get foreign business. It also argues that much of the risk involved is not that foreign purchasers will not pay, but that payment will simply be delayed.

A chorus of protest has been building up, with critical voices coming from within the Free Democratic Party (FDP), the junior partner in the government coalition, and more vehemently from the opposition Social Democratic Party.

An SPD trade expert, Herr Uwe Jens, recently remarked that it would be absurd to add to exporters' cost burdens when the whole economy was heavily reliant on an uplift in trade. Higher Hermes' fees, he warned, were bound to destroy jobs, particularly in manufacturing and in vulnerable small to medium-sized concerns.

Politicians and officials bent on trimming government spending and cutting subsidies have been brushing aside these arguments. Hermes, like other institutions, must pay its way, they assert.

As a result of the increased problems in trade financing, Hermes' payout to exporters grew from DM 770m in 1981 to DM 930m last year. In most cases 'political' factors were

described as the reason why the exporters failed to obtain payment and turned to Hermes for compensation. Of the payouts for political reasons last year, more than half involved Poland and a further 14 per cent Romania.

On the other hand, Hermes' income from insurers and from delayed recovery of debts abroad was actually high enough last year to cover its increased payout and its administrative costs, with a surplus of DM 34m left over. It is widely doubted whether such a result can be achieved this year, in view of the risks involved, for example, in Latin America.

Hermes covers slightly less than 10 per cent of West Germany's export business, mostly to developing countries, Opec countries and Eastern Europe. A smaller percentage is insured by other private companies on a purely commercial basis.

While Hermes insurance coverage smooths the path in securing finance for a trade deal, it is vital only in the most sensitive countries and does not affect the bulk of West Germany's trade.

In actual trade financing, as with many other areas of banking, the West German scene is dominated by Deutsche Bank, the country's biggest commercial bank. This one institution is estimated to handle the financing of about a quarter of the country's foreign trade and an even higher proportion about a third, of trade with Eastern Europe.

In an extension of its already wide trade financing interests, Deutsche Bank recently reached agreement to increase its stake in European Asian Bank, which from its Hamburg headquarters supervises banking operations in 14 countries of Asia and the Pacific.

European Asian Bank was set up in 1972 by the seven partners of the European Bank for International Company (Ebic). At the same time it took over the assets and liabilities of the Deutsch-Asiatische Bank, which dated back to 1889 and was involved in Chinese railway construction before World War I.

With three of the Ebic partners going their own way, Deutsche Bank now is gaining 60 per cent of the Hamburg-based bank. European Asian Bank has been steadily building up a network of trade financing. About 20 per cent of business has a German link, such as

arrangements to finance in local currency the sale of trucks from Daimler-Benz's Indonesian assembly operations. But the bank has also been interested in such deals as financing Indonesian plywood exports to Taipei and South Korean ship sales to Sri Lanka.

Herr Michael Boehm, a managing director, believes the bank's activities, concentrating on medium-sized businesses, will complement those of Deutsche Bank, with its interest in larger Asian projects.

West German exporters and their bankers have been looking increasingly to Asia in recent years, although with mixed results. Not only the "Big Three" commercial banks but other competitors also have opened representative offices in Asia to explore trade financing and investment opportunities.

However, Herr Ingo Greve, an official of the East Asia Association in Hamburg, believes that West German exporters still find it difficult to obtain finance for trade with Asia. He sees this as largely a psychological problem, arising from a feeling that Asia is more distant and less familiar than, for example, Latin America.

He also strongly holds the view that export credit arrangements—not only for Asian trade—should be liberalised to secure orders and jobs. He believes that in the past orders have been lost to other countries through tight credit insurance restrictions imposed through Hermes.

Manufacturers believe that Hermes—and beyond it the Government—should view problems of trade finance and export insurance from a longer-term perspective. They point out, for instance, that since 1949 Germany has contributed DM 1.8bn to the Government budget. This should be taken into account in the present climate of higher risks and possible losses, they argue.

Some financial figures in West Germany have also been pointing out the being debt problems of some countries would be best solved by promoting a more general economic recovery and trade growth. Manufacturers argue that Germany would make a contribution to such a policy by being more liberal to export insurance and trade finance. They believe that this would not only help German exporters to sell abroad but would also help problem countries to buy investment goods needed to improve their economic potential.

Trade finance

JOHN DAVIES

key to securing orders for work and finance from banks. The conditions of insurance coverage have been eased in some respects, even though Hermes faces the possibility of heavier payouts because of the debt problems of some foreign countries. At the same time, however, official pressure has been steadily building up for an increase in Hermes' fees—a move which would add to exporters' costs at an unfavourable time.

Hermes is actually a commercial organisation tracing its origins back to 1917 and largely owned by Munich Re-Insurance and Allianz Insurance. While its domestic insurance is its own affair, it conducts export credit insurance as the chosen instrument of the West German Government, which also bears the financial consequences of this part of the business. Hermes is, therefore, like its namesake in Greek mythology, a messenger of the gods and protector of merchants.

The extent to which the gods should, through Hermes, protect exporters has been a matter of some debate in West Germany, which is a strong supporter of free and unsubsidised trade.

However, the Cabinet in Bonn

Measured approach to electronic systems

FROM THE 14th floor of the Chase Bank in Frankfurt, Herr Heinz Rahlves has a far-reaching view of the city and its many building projects, including new bank offices. The view encourages a sense of perspective in a field in which Herr Rahlves has a particular interest—banking technology. The horizon is wide, activity is definitely there, but it takes some time to clear debris from the past and make a dramatic change in the landscape.

Chase, like other big American-based banks, is among those which set considerable store by new electronic banking services for corporate customers. Other strong champions of the cause in West Germany include Citibank and Chemical Bank. However, U.S. institutions tend to run into a conservative approach to customer-service banking technology in West Germany, still wary of the local caution but also from the balance of financial forces in the country.

Herr Rahlves, combining U.S. and German experience as well as training in computers and banking, adopts a pragmatic approach. He estimates that apart from banks themselves a total of about 80 companies in West Germany have opted for the computerised cash management services offered by his bank and by its competitors. The big question, he says, is how to reach the next 300 companies.

He believes it will be necessary to expand the range of functions which the electronic systems will enable corporate treasurers to perform from their own offices. This means that banks have to offer a hardware and software package that is a multi-purpose intelligent device.

For the next 300 companies you will have to offer more products and more intelligent machines," he says. Herr Rahlves senses a change in attitudes over the past year or so, with top management of European companies becoming more interested in the possibilities opened up by electronic banking. More executives are making enquiries and encouraging their staff to become familiar with the techniques.

With their already powerful position in corporate banking, the big West German banks have not proceeded with undue haste into this technological field. However, Commerzbank took a decisive step late last year by reaching an agreement with Chemical Bank to offer the U.S. bank's system of electronic financial information and cash management to corporate customers.

Dresdner Bank and Deutsche Bank have also been weighing up prospects for this type of

customer service. Dr Wilfried Guth, one of the two joint chief executives of Deutsche Bank, made a brief reference to electronic banking services in a recent address to the Frankfurt Chamber of Commerce. He remarked that many large international banks in response to the changing needs of their customers, had developed new forms of financing and services, including cash management.

Critics of the German banks claim that their technological conservatism stems partly from their traditionally strong links with local companies, which are scarcely likely to switch allegiances. The critics also point out that electronic cash management by customers could lead to a reduction in the bank balances thus reducing a source

Automation

JOHN DAVIES

of bank profits—a development the banks could hardly welcome. On the other hand German companies themselves are generally cautious by nature. Their links with their house banks are close and serious.

The cautious attitude of the big West German banks also extends to technological services for private customers, although in this field they are far more aware of potential competition—the number of cash dispensing machines is growing but they are still much less widespread than abroad.

The banking system has been concerned to try to avoid unnecessary duplication in installation of cash dispensers. In 1979 an agreement was reached to provide compatible dispensers so that customers of one bank could withdraw cash from a machine at another bank. Under the agreement savings banks are progressively converting machines to the compatible system.

While some cities are fairly well endowed with cash dispensers, the machines are hard to find in others. Hamburg in particular has been described as a desert in which a cash dispenser is a rare oasis.

West Berlin has been relatively better served, with 19 devices in the compatible system—requiring a Eurocheque card and a code number—as well as ten others run by the West Berlin Savings Bank. At the 19 Eurocheque card cash dispensers more than 20,000 withdrawals are made each week, totalling nearly DM 5m. This works out at nearly 160

withdrawals a day from each dispenser.

The banks have expressed determination to press on with providing a greater number of automatic cash dispensers. They do not believe that the devices will be overtaken by other technological innovations such as point-of-sale electronic transfer systems or bank account operation from a customer's living room via his Bildschirmtext (videotext) screen.

An electronic point-of-sale system is being tested in Munich, with terminals installed at a number of retail stores and petrol stations. Purchasers use their Eurocheque cards and code numbers to authorise direct deduction of payment from their accounts with certain local banks.

This technological device has not met with universal enthusiasm from savings banks or the retail trade in West Germany because of the costs involved. Small and medium-sized shops want to keep a tight rein on this development. They fear they will either face heavy costs through installing terminals or else lose business to stores which provide them as a customer service.

Home banking is one of the boundless prospects opened up by Bildschirmtext, which is being introduced by the West German Post Office next year as a basic video communications system. When adequately refined and with sufficient security precautions the system could theoretically enable bank customers to get information on their accounts and arrange account transactions—all from the comfort of their living room. At this stage many bankers are rather dubious about the implications.

West German banks are laying the groundwork for future extensions to customer services. This is explicit in a recent trade union agreement which envisages the computerisation of many banking services and which promises to protect bank employees' jobs as far as possible through retraining.

However, some of the West German reservations about automation were expressed recently by Dr Walter Seipp, chief executive of Commerzbank. He said the automation offered many possibilities to improve customer services as well as to dispense with routine work. But his bank did not want to become a "machine bank". Individual professional counselling of customers must remain in the foreground of the bank's activities, he said. Technological devices, he indicated, were simply complementary to the bank's personal dealing with customers.

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arrangements to finance the sale of the bank's assets. The bank has also been involved in a number of other financial transactions, including the sale of its stake in the German airline Lufthansa. The bank's management has been criticized for its handling of these transactions, particularly the sale of the airline stake. The bank's share price has fallen significantly since the announcement of the sale. The bank's management has defended its actions, claiming that the sale was necessary to raise funds for the bank's operations. The bank's management has also claimed that the sale was in the best interests of the bank's shareholders. The bank's management has also claimed that the sale was a success, as the bank was able to raise the funds it needed for its operations. The bank's management has also claimed that the sale was a success, as the bank was able to raise the funds it needed for its operations. The bank's management has also claimed that the sale was a success, as the bank was able to raise the funds it needed for its operations.

WEST GERMAN BANKING VII

Confidence in underlying strength despite recent easier tone

AS THE West German stock market at last shook off its lethargy, bankers and investors are quick to describe this as the year of the share market. The description has been given for various reasons, with prices reaching new peaks, the volume of trading increasing, and the market showing signs of recovery. The market has been buoyed by a combination of factors, including a strong economy, a stable government, and a confident outlook for the future. The market has also been helped by a number of factors, including a strong economy, a stable government, and a confident outlook for the future. The market has also been helped by a number of factors, including a strong economy, a stable government, and a confident outlook for the future.

West German share prices indices began rising from their trough in August last year, several weeks before the shift of political power in Bonn. The market has been buoyed by a combination of factors, including a strong economy, a stable government, and a confident outlook for the future. The market has also been helped by a number of factors, including a strong economy, a stable government, and a confident outlook for the future. The market has also been helped by a number of factors, including a strong economy, a stable government, and a confident outlook for the future.

The Commerzbank share index rose 24.8 points to 844.3 in the first day trading after the election on a wave of market euphoria scarcely seen since the days of Chancellor Konrad Adenauer. By April 27 the index had reached a 22-year high of 985.6, showing a rise of 43.5 per cent since the trough of 650.2 on August 17 last year and a 26.5 per cent gain since the beginning of 1983.

A sobering influence then set in, with prices and the volume of trading declining in the ensuing weeks. Bankers actively involved in the share market described the setback at the time as a period of consolidation attributable to a number of factors. These included a "normal" reaction to the higher prices, the strengthening of the dollar and sterling against the Deutschmark, and renewed doubts about interest rates and economic recovery. Foreign investor interest waned off with the growing likelihood that share market gains would be wiped out by currency losses.

Market dealers believe that, in general, share prices have shown strong resistance to the depressive influences in the last couple of months. Despite continuing doubts about interest rates and economic growth, the consensus seems to be that after a period of uncertainty and fluctuation the market still has further gains ahead, with a

SECTORAL SHARE INDICES						
Sector	August 17 1982	Dec 30 1982	March 7 1983	April 27 1983	July 7 1983	Per cent rise between Aug 17 and July 7
Banks	91.30	108.41	116.31	138.22	136.55	49.6
Insurance	229.58	288.81	302.26	360.80	373.70	62.8
Motor vehicles	141.98	182.82	215.10	253.02	278.86	96.4
Building	283.07	376.39	405.56	451.24	480.41	69.4
Chemicals	53.31	69.45	65.54	73.56	77.35	45.1
Electrical	69.15	84.74	95.53	114.03	122.27	76.8
Retail stores	48.60	57.32	62.18	68.42	68.99	42.8
Steel	102.58	106.85	114.32	128.18	117.40	14.4
Manufacturing and engineering	107.18	118.83	125.46	135.35	129.62	20.9

Compiled by Westdeutsche Landesbank December 31 1982=100.

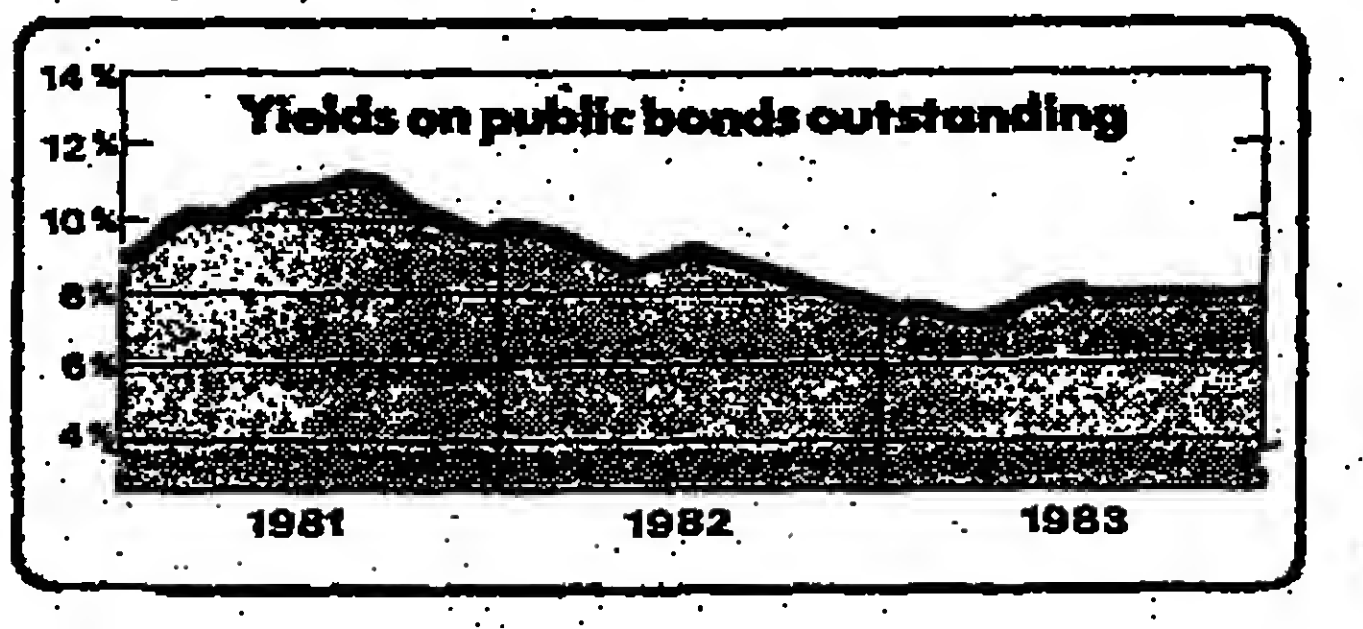
PRICES OF SELECTED EQUITIES (DM)						
	Aug 17	Dec 30	March 7	April 27	Aug 19	
Philipp Holzmann	386	490	520	540	410	
Daimler-Benz	292	393	450	541	571	
BMW	176	227	232	343	383	
Siemens	214	260	291	355	343	
Hoechst	104	118	133	145	157	
BASF	114	128	131	149	155	
Dresdner Bank	117	148	161	196	174	
Kanthal	176	196	240	266	256	
GEH	177	169	172	169	146	
Mannesmann	127	144	159	177	143	
Linde	265	321	337	385	370	
AEG	25	28	59	66	71	

While the share market has been rising, the volume of option trading has already surged ahead several weeks before the new regulations came into force. But bankers say the new system also quickly attracted new clients who previously adopted a reserved attitude to option trading. A variation of the option theme—Eurodollar bond issues with detachable and tradeable share warrants—also came to the fore in the West German financial markets this year. The warrants are basically options to buy shares in the borrowing group at some future date but at a predetermined price.

Companies turned to this capital-raising device because of a favourable constellation of forces in the financial, currency and stock markets. At the same time the new share market climate increased expectations that more companies might turn to the stock exchange to improve their capital base. While some companies have launched rights issues for a mixture of motives, the scale has not been dramatic. The amount raised in the first quarter, for example, was well ahead of the same period last year, but the total was dominated by the DM 810m rights issue by RWE, the electricity utility, to finance power station construction.

In some cases rights issues serve a double purpose of increasing the company's capital base while also providing a benefit to shareholders if the new shares are issued below the actual market price. This has been the case for instance with the rights issues for Siemens and Daimler-Benz. The capital-raising role of the West German stock exchanges has long been regarded with disappointment. Critics of the exchanges' performance point out that the share capital base of companies has declined markedly in the last two decades and that few new companies are launched on the stock market. Many large companies in West Germany, built up since the war, remain in family ownership or in a few hands and are not traded on the stock exchanges. In addition, there is a growing feeling that the stock market is failing to provide the opportunity for investors to finance newly founded innovative enterprises.

There is some indication that the number of company launches on the stock market may be increasing. One notable newcomer to the market is Wella, the hair-care company. But as an indication of how such matters operate in West Germany, this "newcomer" already has sales revenues of DM 1.4bn a year and its business links stretch world-wide, even as far as China. The shortcomings of the stock market as a source of capital are drawing more attention these days. For instance, Professor Karl Oppenlander, president of the IFO economic research institute, remarked recently that serious consideration should be given to ways of bringing more companies to the stage of launching shares on the stock exchanges. He believes that there is sufficient risk capital in West Germany to support such ventures but that so far it has been channelled into other avenues. Dr. Wolfgang Roeller, a management board member of Dresdner Bank, summed up the problem in a recent address to the Frankfurt Chamber of Commerce. A lively share market was not an end in itself, he said. It was a means for companies to ensure they could improve their capital strength. He believed steps should be taken, including taxation measures, to try to encourage a sustained and wide interest in the share market.



There is one bank that knows all about Northern Germany

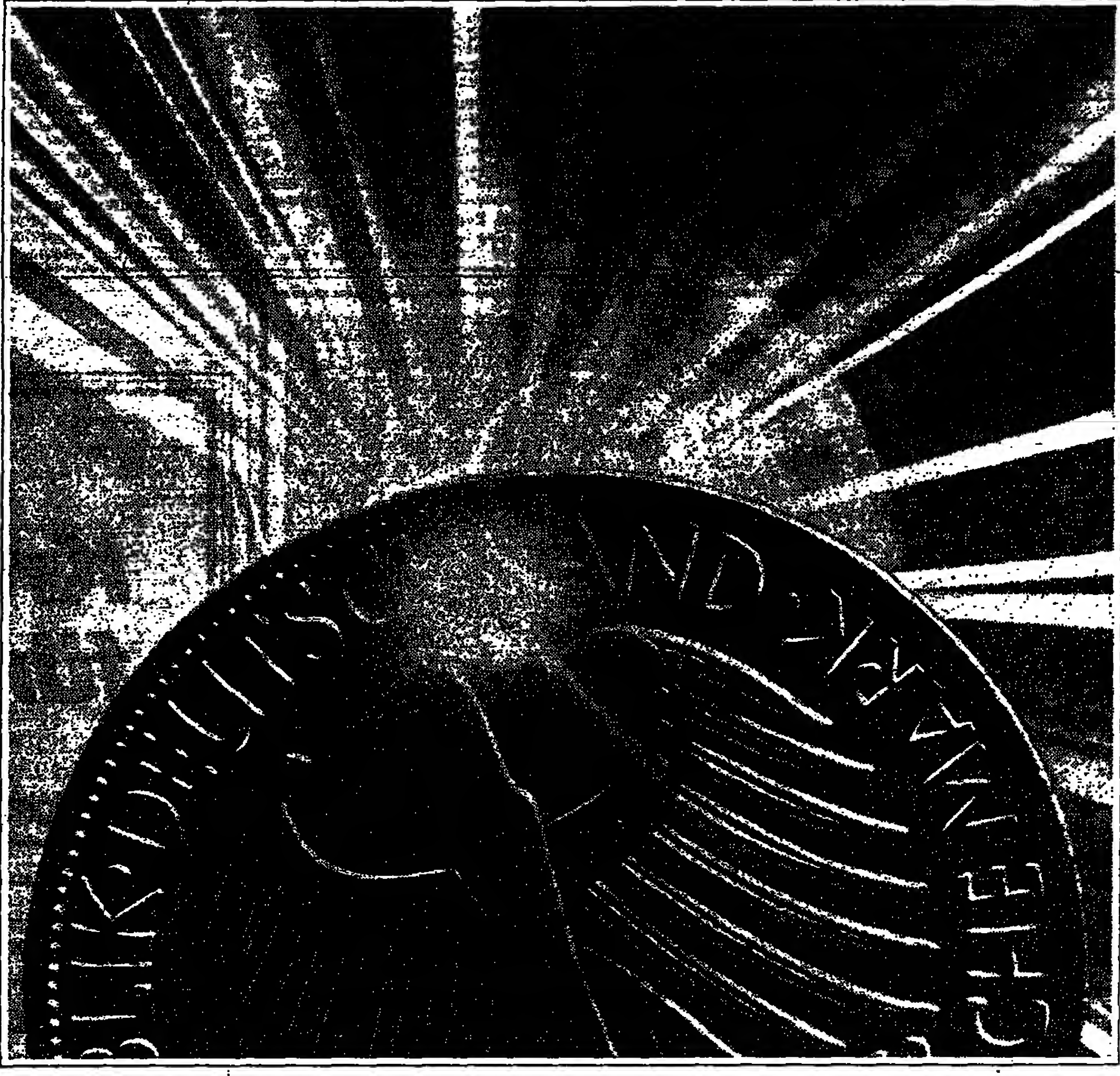
If you are considering business with Germany — particularly in the northwestern region — you should ask

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Westdeutsche Landesbank
A strong force in wholesale banking

WEST GERMAN BANKING VIII

WEST GERMANY is stepping up its efforts to attract investment from overseas, providing in the process strong competition for countries such as Britain, France, and Ireland, which for a number of years have been seeking to stimulate and modernise their own economies through the acquisition of manufacturing expertise from abroad.

In Germany the incentive, as elsewhere, has been provided by a substantial rise in unemployment—up from 1.3m in 1981 to 2.1m now, or roughly 9.5 per cent of the working population. There has been mounting concern, too, that competitors such as Japan are moving ahead of West Germany in the industries of the future. German industry's investment record throughout the 1970s has been sufficiently poor for it to be regarded by the OECD as the potential Achilles' heel of the economy. In 1982, for example, investment decreased

in real terms by 6.5 per cent while GNP fell by substantially less at 1.2 per cent.

With encouragement from the Federal Government, each of the German Länder (states) has moved into promoting itself actively as a base for manufacturing industry, with American and Japanese companies seen as the most promising source of new technologies and jobs.

Among the attractions which the states are emphasising are West Germany's central position in Europe and the strength and size of its market. Low rates of inflation, the generally pro-business climate in which industry operates, and the sophisticated and comprehensive financial services on offer are other assets which are stressed.

Some of the main features of the business environment which incoming investors will find are listed below.

Guide for would-be foreign investors

Banking System

The banking system can be classified into two categories (1) multi-purpose or universal banks and (2) specialised banks. The latter provide mortgage loans, lease finance, etc. For the businessman, however, multi-purpose banks are the most important.

Their business is not limited to commercial or investment banking or brokerage activities. They are in a position to provide all banking services: loans, traditional banking services, investment banking, trading in securities for own or customer's account, as well as cross-border transactions through their own branches abroad or banking correspondents.

● **Short-term arrangements** (up to one year). These are normally handled in the form of overdraft facilities on a current account. Such arrangements make it possible to draw out and repay on any day according to the cash flow and liquidity requirements of the business.

Loans

● **Short-term loans**. It is also possible to borrow amounts for fixed periods of one to 12 months under short-term arrangements, which are normally

less expensive than the overdraft rate.

● **Trade acceptances**. These are used to finance trade flow up to 90 days and can be discounted under arranged lines of credit.

● **Medium and long-term loans**. Permanent working capital needs and fixed assets are usually financed with instruments such as revolving credit lines and term loans, in addition to equity. Here, the banks have a number of alternatives and loan agreements can be "tailor-made", according to specific needs.

Security

● **Unsecured lending** to industrial corporations — also to medium and smaller sized companies — has become the practice during the past 20 years.

● **Secured lending** on the basis of mortgages, assignment of receivables, pledge of marketable securities or inventory is the prevailing instrument in case of new companies. (Note: a leverage of 2:1 or 3:1 is quite common.)

● **Guaranteed lending** is the most usual instrument used by foreign firms to finance their subsidiaries in Germany.



Where will the new jobs come from? Germany is looking beyond its traditional home-grown engineering sector and is now mounting a major effort to attract investment from the U.S. and Japan.

Taxation

In West Germany, Federal, state and municipal taxes are levied. Federal and state taxes come under the administration of State Tax Offices (with some Federal supervision), municipal taxes under the respective municipalities. Thus there is no duplicate jurisdiction. Each form of taxation comes under the administration of one authority only.

The amount of a specific tax is determined by the local tax offices on the basis of tax returns or other information submitted by the taxpayers. Taxpayers who are subject to income tax, municipal trade tax and general property tax are required to make quarterly prepayments: taxpayers subject to value added tax file returns and pay the tax due each month. For foreign business enterprises, the following taxes are most important.

● **Value Added Tax (VAT)**. This Federal tax is payable on sales and services rendered by business enterprises in the

course of their activities in Germany and on the import of goods (export sales are exempt). It is levied on the net value (=sales price or import value, before VAT) of a transaction, with a deduction for prepaid taxes. The tax rate is 14 per cent, with the exception of certain goods and services (agricultural and food products, books, etc.), on which the rate is 7 per cent.

● **Municipal Trade Tax**. This tax is calculated on the basis of trade profits and trade capital. Tax rates differ between municipalities; generally, however, they are between 12 per cent and 20 per cent on trade profits exceeding a certain minimum and between 0.6 per cent and 0.8 per cent on trade capital. When calculating income tax liabilities, municipal trade tax payments are deducted as business expenses.

● **Corporate Income Tax**. This is a Federal tax. No state or municipal corporate income tax is levied in West Germany.

Companies subject to this tax are those incorporated under German company law and German branches of companies incorporated under foreign law. Basis for the calculation is the net profits as determined under the Corporate Income Tax Law and the Income Tax Law (see below). Deductible are all ordinary and necessary business expenses (including compensation of officers but only 50 per cent of directors' fees). Non-deductible are some taxes (e.g. property tax and the corporate income tax itself), expenses connected with exempt income, etc.

Exempt income includes e.g. dividend payments from subsidiaries (shareholding 25 per cent or more), if redistributed to the shareholders of the parent company.

The tax rate for earnings distributed is 36 per cent, for earnings retained 56 per cent. Domestic shareholders receive a personal income tax credit for the 36 per cent Corporate Income Tax paid on their part of

earnings distributed. However, they have to include the gross amount of their dividends (i.e. the amount before Corporate Income Tax) in their taxable income. As a consequence, on their cash dividends, they only pay a Personal Income Tax equal to the difference between their individual tax rate and 36 per cent—or receive a tax refund, if their individual tax rate is lower than 36 per cent.

● **Dividend Withholding Tax**. From the cash dividends, another 26 per cent is withheld as prepayment against the personal income tax liabilities of the shareholder.

● **Other Withholding Taxes**. Some payments to non-residents (royalties, directors' fees, interest on certain kinds of bonds) are also subject to withholding taxes. Tax rates differ according to type of payment.

● **Personal Income Tax**. This also is a Federal tax. No state or municipal income tax is

levied in the Federal Republic of Germany.

The income of all residents—i.e. persons who reside in the Federal Republic of Germany at least for 6 months within a calendar year—is subject to this tax. Tax base is the income received during a calendar year. This is defined as the total net receipts from one or more of the following sources: income from (1) a trade or business, (2) employment, (3) capital investments, (4) rentals and leases, (5) professional and certain other services, (6) farming and forestry, (7) others.

Total net receipts are calculated as follows: gross receipts, minus expenses related directly to the source of income in question (e.g. business expenses), minus certain personal expenses defined as deductible in the tax law (e.g. personal insurance premiums up to a certain limit). The accompanying tax table is then applied to the resultant net amount.

Various incentives are offered to promote industrial development in certain weaker areas. Preferential tax treatment is also available for some types of investment.

The Federal Republic is divided into 21 action or development areas defined by the Federal and state government, and outlined in the so-called "base plan." These areas consist of the border zones between West and East Germany (Zonenrandgebiet) and other designated areas where economic activity is significantly below that of West Germany as a whole. The designated development areas cover nearly 50 per cent of West Germany and almost 30 per cent of its population.

Projects that qualify for assistance include:—

● **establishment of manufacturing plant**. Financing assistance can reach in total up to 25 per cent of capital expenditure. Purchase of an existing plant

closed down for at least six months or threatened by closure qualifies for the same assistance.

● **expansion of manufacturing plant**. Assistance is available if 15 per cent, or at least 50, new jobs are created in addition to those already existing.

● **conversion or complete rationalisation of manufacturing plant**.

The main elements in the overall package of inducements available are:—

● **Investment grants**—available for up to 10 per cent of the cost of new depreciable fixed assets in defined areas. The grant is given as equity capital and represents non-taxable income, but movable assets for which grants are received must be kept in the establishment for at least three years.

● **Investment subsidy**—dependent on the area where the investment takes place subsidies ranging from 6.25 per cent to 15 per cent are on offer. These subsidies are treated as extraordinary income and are taxable.

● **Depreciation**. In border zones special depreciation rates amounting to 40 per cent for buildings and 50 per cent for machinery (75 per cent in Berlin) are available, together with employment incentives and training grants.

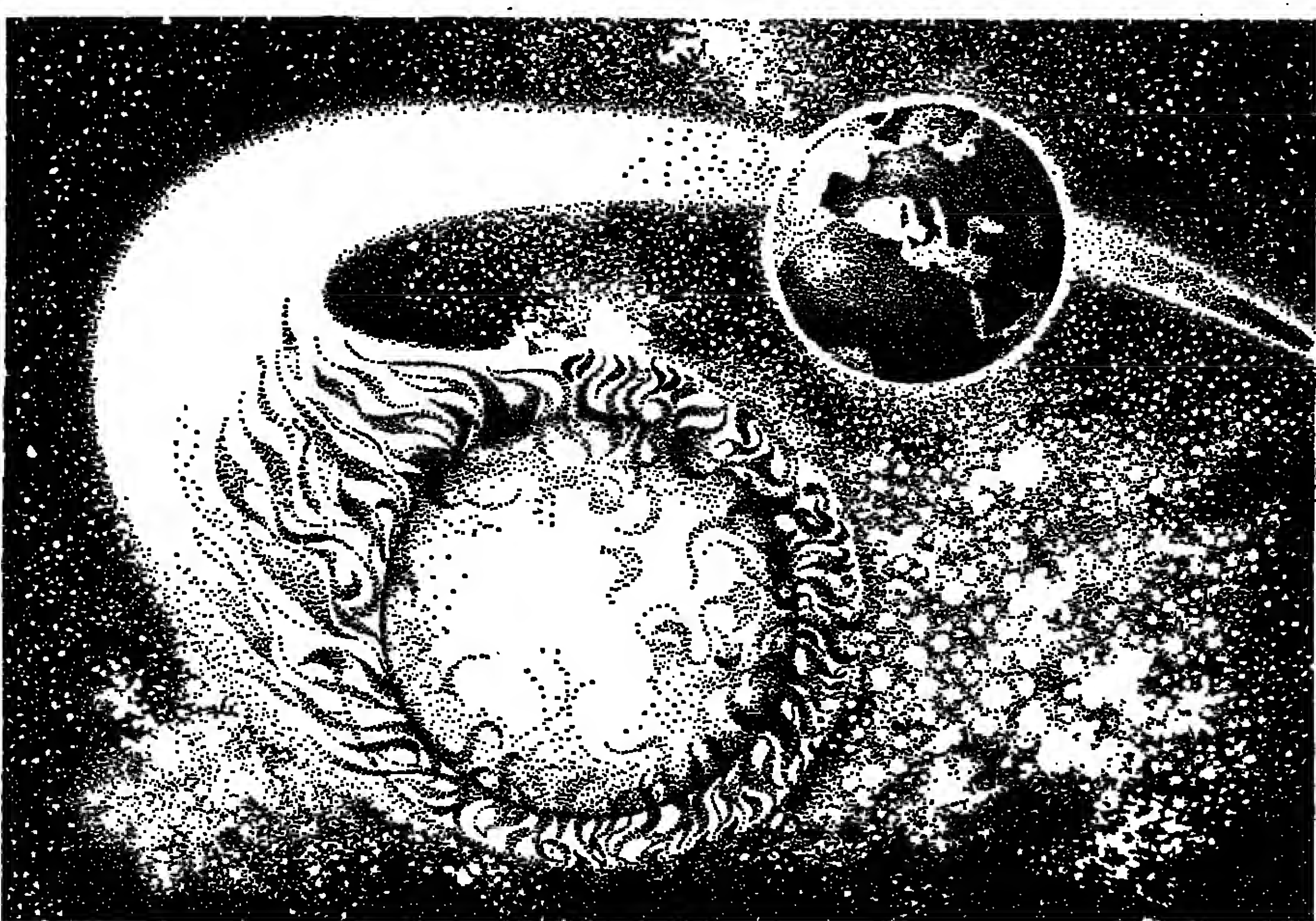
● **Loans and guarantees**. Low interest rate loans are available in addition from each of the German states.

● **Reduced site prices**. Municipalities can make available sites at reduced costs through a system of subsidy operated by the states.

● **Exemption from real estate acquisition tax**. Available for land on which business premises are to be built or expanded.

PERSONAL TAXATION						
Taxable annual income DM	Single taxpayers		Married taxpayers filing joint returns			
	Income tax DM	Average tax rate %	Income tax DM	Average tax rate %	Income tax DM	Average tax rate %
10,000	1,271	12.7	220	3.3	220	22.0
20,000	3,496	17.5	2,542	12.7	2,542	22.0
30,000	6,542	21.8	4,728	15.8	4,728	22.0
40,000	10,506	26.3	6,992	17.5	6,992	24.7
50,000	15,069	30.1	9,748	19.5	9,748	30.7
60,000	20,132	33.9	13,894	24.1	13,894	39.8
70,000	25,132	35.9	18,478	26.1	18,478	47.8
100,000	41,236	41.2	30,138	30.1	30,138	55.1
200,000	97,141	48.6	62,472	31.2	62,472	55.1
500,000	265,155	53.0	150,236	30.1	150,236	56.0

Of importance to foreign business enterprises settling in West Germany are the double taxation agreements, providing relief from taxation. Agreements exist between the Federal Republic and most other important states.



Sanpaolo Bank: date of birth 1563...

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Munich: Promenadeplatz 11 - Tel. 22 92 86 - 22 55 37 - Telex 529 332
Representative Offices in Paris and Zürich.

Kreditanstalt für Wiederaufbau

Highlights from the Balance Sheet as at December 31, 1982

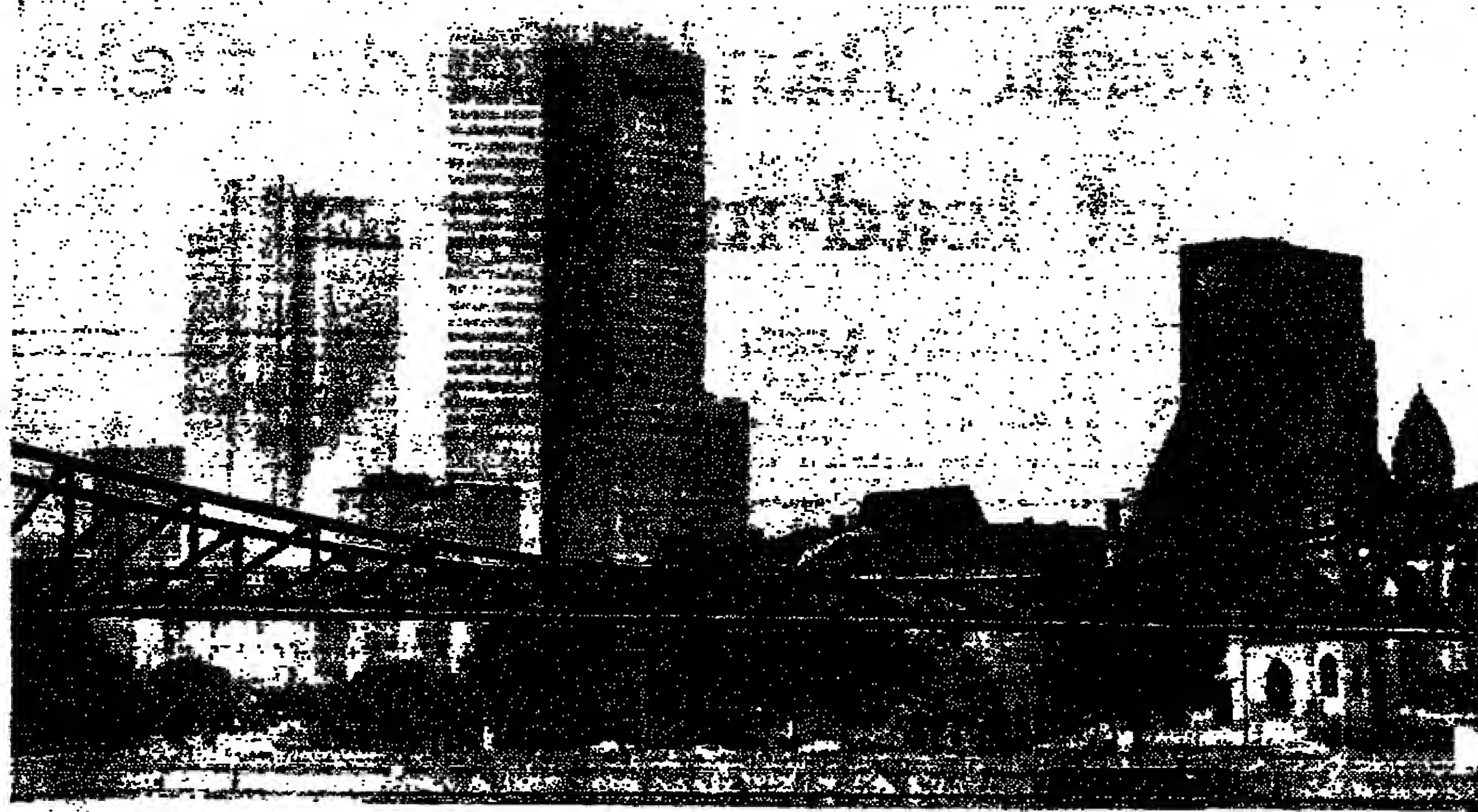
Assets	DM million	Liabilities	DM million
Cash Reserves and Balances with Banks	1,028	Banking Liabilities	52,173
Securities	815	Promissory notes	550
Loans	56,137	Bonds	2,921
Participations	154	Provisions	150
Real estates and buildings	21	Capital	1,000
Unpaid Capital	850	Reserves	1,626
Loans on a trust basis	6,978	Loans on a trust basis	6,978
Other Assets	635	Other Liabilities	1,220
Total Assets	66,618	Total Liabilities	66,618

We shall be pleased to send you on request a copy of the Annual Report for 1982 together with a summary of Kreditanstalt's activities.

KfW Kreditanstalt für Wiederaufbau

Palmengartenstr. 5-9, Postfach 111141
D-6000 Frankfurt am Main 11
Tel.: 6117/4310; Telex: 411352

WEST GERMAN BANKING IX



Bank headquarters tower over Frankfurt's skyline. Providing venture capital to ensure that a new generation of entrepreneurs can get started is now a high priority.

Increasing emphasis placed on entrepreneurial investment

BIG WEST GERMAN banks, institutions which dominate the financial system and therefore the availability of loan and equity finance for industry, are under an increasing pressure to provide venture capital to ensure that a new generation of entrepreneurs can get started is now a high priority.

Venture capital

STEWART FLEMING

vision of venture capital to small companies on high technology sectors. The bank, he says, has begun an internal inquiry into how it could become more active in the field. Commerzbank is not alone in its growing concern about the venture capital situation. In recent years German political and financial leaders have become more and more worried about the fact that the nation does not seem to be producing a new generation of entrepreneurs—men like Heinz Nixdorf or Max Grundig, whose entrepreneurial vision and determination helped to lift the Federal Republic back into the position of industrial leadership in Western Europe.

In the opinion of many West German businessmen, the economy badly needs another entrepreneurial wave. The failure of major companies such as Siemens, for example, to react quickly enough to the rapid evolution of micro-electronics technology tends to confirm the judgment that in a period of rapid technical change, reliance on industrial giants to keep abreast of international rivals is not enough. The result is that even electronic industry executives admit privately that West Germany is way behind the U.S. and Japan in micro-electronics technology. It is feared that the same is happening in other new fields such as biotechnology.

According to Herr Herbert Wolf, head of the Commerzbank economics department, of the two principal elements at work, technical capacity and a favourable financial framework, it is the financial side which poses the biggest problem for the innovative entrepreneur. In part this reflects the inadequate profitability of West German industry, a subject which the Bundesbank, the central bank, has been hammering home so emphatically that Dr Helmut Schlesinger, the Bundesbank vice-president, recently found himself apologising to an audience of journalists for sounding like a lobbyist for German industry.

The change in government in Bonn to a new Right-of-Centre coalition headed by Dr Helmut Kohl is widely seen as clearing the way for a swing in the pendulum towards a redistribution of national income towards the corporate sector, a shift which it is hoped will create an environment in which more entrepreneurs will flourish.

But if improved corporate profitability is seen as a necessary condition for a more vigorous industrial sector, on its own it may not be enough. The case of Herr Volker Dolch, the founder of Dolch Logic Instruments, one of the

world's four leading logic testing equipment manufacturers, is a case in point and one which provides a searing critique of the West German financial system. Herr Dolch, a German who has in seven years built up a company which is a leader in a field on the frontier of computer industry technology, was forced to go to the U.S. and float his company on the venture capital market there in order to get enough equity to grow.

In his view West German bankers are ignorant about and therefore afraid of lending to high tech companies such as his, whose principal assets are not buildings and equipment but ideas which need to grow rapidly to survive. "The German financial system puts minefields in the way of companies such as ours," he says. It is not just the big West German commercial banks like Deutsche Bank which are too nervous about their carefully polished reputations to risk getting involved in the hurly burly of the venture capital market. These big banks and also the blue-blooded private merchant banks, are even reluctant to float companies on the West German stock market in case an issue flops. In the past two and a half years only some half-dozen companies

have been floated on the German stock markets.

Instead the big banks prefer to encourage their customers to pour billions of marks each year into tax shelter property funds. Bankers estimate that tax shelter funds take in around DM 4bn of private savings a year—the "grey capital market"—of which as much as three quarters goes into some form of property investment. Now banks are realising just how damaging is this diversion of risk capital into tax shelters and are calling for changes aimed at making productive entrepreneurial investment more attractive so as to siphon funds away from such tax shelters.

While the big banks carefully calculate their options, smaller firms are sprouting up, firms such as Portfolio Management in Munich, or Genes in Cologne, bent on taking a lead in developing the venture capital market or fostering the flotation of new firms on the equity market. The change in government, the urgent need which many entrepreneurs have of new equity and changing attitudes towards public ownership of companies are factors which, it is argued, mean that venture capital is an idea whose time has come in the Federal Republic.

FINANCIAL TIMES 1983 SURVEYS PROGRAMME

SEPTEMBER

Thurs. 1st Four Wheel Drive
Fri. 2nd Life of Man
Mon. 5th Reinsurance
Tues. 6th Switzerland
Wed. 7th Yugoslavia
Thurs. 8th
Fri. 9th Bermuda
Mon. 12th Hong Kong
Tues. 13th Netherlands Banking, Finance and Investment
Wed. 14th Portugal
Thurs. 15th Wales
Fri. 16th Executive Cars
Sat. 17th
Mon. 19th Japan
Mon. 19th Gold
Tues. 20th France
Wed. 21st
Thurs. 22nd Danish Exports
Thurs. 22nd Business Books
Fri. 23rd Vans and Light Trucks
Sat. 24th Italian Regions
Mon. 26th UK Banking
Mon. 26th Jordan
Tues. 27th Italian Engineering
Wed. 28th UK House-building
Thurs. 29th Defence Industries
Thurs. 29th West Berlin
Fri. 30th UK Property

OCTOBER

Mon. 3rd Arab Banking, Finance and Investment
Mon. 3rd Vehicle Rental
Tues. 4th Egypt
Wed. 5th Airport Planning and Construction
Thurs. 6th Philadelphia
Fri. 7th Enterprise Zones
Mon. 10th Software
Tues. 11th Norwegian Exports
Tues. 11th Metals
Wed. 12th China
Thurs. 13th Advertising Industry
Fri. 14th Greece
Fri. 14th Rockdale
Mon. 17th Office Equippping and Furnishing
Tues. 18th GLC and Metropolitan Counties
Wed. 19th The Motor Industry
Wed. 19th Frozen Foods
Thurs. 20th Corporate Finance
Fri. 21st Birmingham
Mon. 24th West Germany
Mon. 24th Britain's Business Cities: Bristol
Tues. 25th Telecoms
Wed. 26th Aluminium
Wed. 26th Selby Coal Field
Thurs. 27th Miami
Fri. 28th FT 500
Mon. 31st Industrial Property
Mon. 31st Dairy Industry

NOVEMBER

Tues. 1st Regional Development
Tues. 1st Texas
Wed. 2nd Luxembourg Banking and Finance
Thurs. 3rd Belgium
Fri. 4th Industrial Bidders
Fri. 4th Foreign Exchange

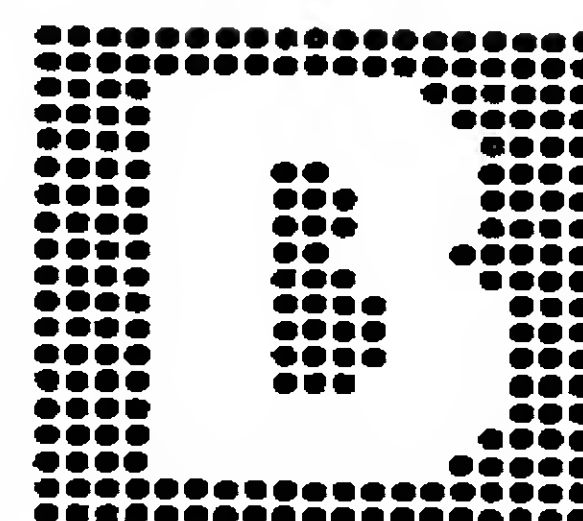
Mon. 7th Australia
Mon. 7th Botswana
Tues. 8th Swiss Banking, Finance and Investment
Tues. 8th Accountancy
Wed. 9th Britain's Business Cities: Manchester
Wed. 9th International Fund Management
Thurs. 10th Yugoslav Trade and Industry
Fri. 11th Property along the M4
Sat. 12th Coins and Stamps
Mon. 14th Commercial Vehicles
Mon. 14th Portuguese Industry
Tues. 15th Singapore
Tues. 15th London's Airports
Wed. 16th Sweden
Wed. 16th International Health Care and Hospitals
Thurs. 17th Mobile Communications
Fri. 18th Retail Property
Mon. 21st Netherlands
Mon. 21st Energy Firms: Coal Technology
Tues. 22nd Brazil
Tues. 22nd Joint European Torus
Wed. 23rd Building Management
Wed. 23rd Andalusia
Thurs. 24th Barbados
Fri. 25th Manufacturing Automation
Fri. 25th Leicestershire
Sat. 26th Christmas Books
Mon. 28th Nigeria
Tues. 29th Nigeria
Wed. 30th United Arab Emirates

DECEMBER

Thurs. 1st East West Trade
Fri. 2nd French Banking
Fri. 2nd Mid Glamorgan
Mon. 5th Europe
Tues. 6th Japanese Industry
Wed. 7th International Construction
Thurs. 8th Nordic Banking
Fri. 9th Cumbria
Fri. 9th Grenada
Mon. 12th Energy Management
Mon. 12th Spain
Tues. 13th Business Information Systems
Tues. 13th Colombia
Wed. 14th Scotland
Wed. 14th Italian Banking, Finance and Investment
Thurs. 15th Canadian Banking
Thurs. 15th Cable and Satellite Television
Fri. 16th Nottinghamshire
Mon. 19th Turkish Industry
Tues. 20th European Small Business

The timing of surveys is subject to change. Synopses giving provisional details of the articles which will appear in the surveys listed can be obtained by writing to FT Survey Synopses, Room 512, Bracken House, Cannon Street, London EC4A 3DF. Editorial information for surveys should be sent in writing to FT Surveys Department at the above address.

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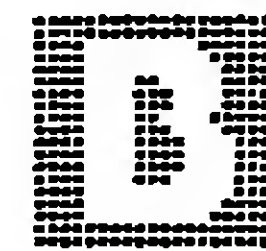
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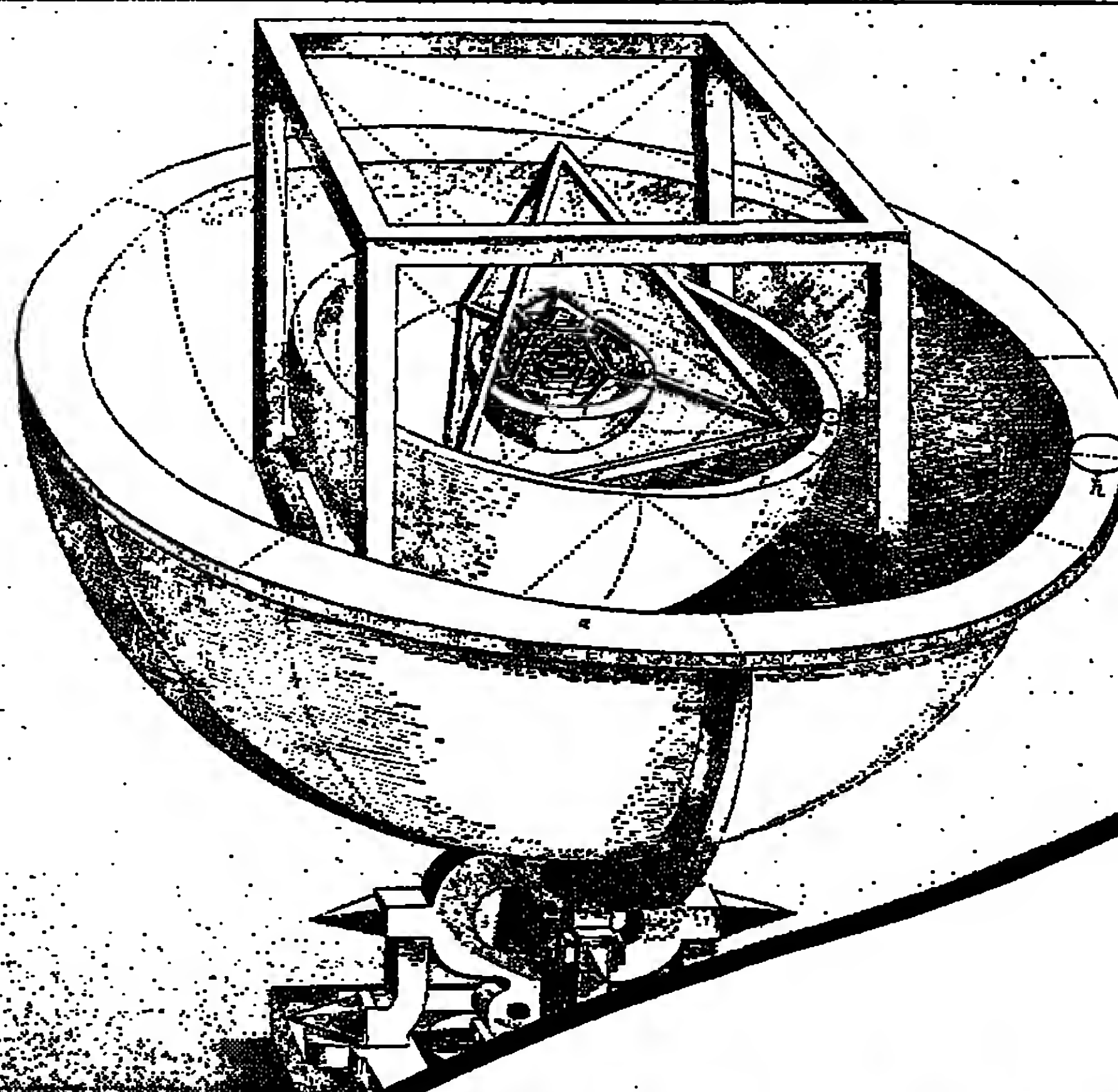
Head Office

16, Boulevard des Italiens, 75009 PARIS. Tel: 244-45-46. Tlx: 280 605

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Productivity in international finance.

Landesbank Stuttgart is based in the heart of Baden-Württemberg, noted for productivity and for its achievements in science, technology, and industry. For pioneers such as Johannes Kepler, whose epoch-making studies of the planetary system helped lay the foundation of modern dynamical astronomy.

Kepler is a typical example of the deep-rooted commitment to diligence and productivity that has made Baden-Württemberg one of West Germany's most prosperous states and headquarters of some of the world's leading names in business and industry.

Productivity is also the cornerstone of our banking philosophy at Landesbank Stuttgart, one of southern Germany's leading banks with assets of some DM 25 billion.

Combining domestic strength with presence in the key Euromarket centers of Europe, we are a reliable partner

in international finance. With a full-service branch in London, we have the capabilities and flexibility to meet the financial requirements of a growing international clientele. In Zurich we are represented by our affiliate Bank für Kredit und Aussenhandel AG (BKA) and in Paris by Banque Franco-Allemande S.A. (BFA).

A government-backed bank authorized to issue own bearer bonds, Landesbank Stuttgart is part of Germany's vast Sparkassen network.

For a banking partner whose first priority is productivity, please contact Landesbank Stuttgart.

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Telephone: (711) 2049-0, Telex: 72519-38

London Branch
72 Basinghall Street, London EC2V5AJ
Telephone: 01-6068651, Telex: 8814275

Landesbank Stuttgart



estors



beyond his traditional home effort to attract investors

pending on the area where investment takes place, ranging from 6.25 per cent to 15 per cent are on offer. The subsidies are treated as extraordinary income and are taxable.

Depreciation. In both zones special depreciation rates amounting to 40 per cent for buildings and 50 per cent for machinery (75 per cent in Berlin) are available, together with employment incentives and training grants.

Loans and guarantees. In interest rate loans are available in addition from each of the German states.

Reduced site prices. The subsidies can make real estate prices reduced costs through a system of subsidy grants by the states.

Exemption from real estate acquisition tax. Available in land on which business premises are to be built or expanded.

au

ber 31, 1982

DM million

62,173

580

2,921

150

1,000

1,626

6,978

1,220

66,618

1982 comparison with

Die Sparkasse in Bremen - an efficient regional bank in all fields of international business

Die Sparkasse in Bremen:

Established in 1825, today the largest bank in the Region. Business conducted predominantly in the north of Germany. Independent Savings Bank not linked to any local authority. Authorised by the by-laws to transact all kinds of banking business in Germany and abroad. Member of SWIFT since 1974. Over 400 correspondent banks in Europe and overseas. 84 branches in and around Bremen; overall staff more than 2000.

Some figures on our performance in 1981/82:

	1981	1982
- Balance sheet total:	DM 7,74 billion	DM 8,17 billion
- Due from customers:	DM 5,24 billion	DM 5,61 billion
- Due to customers:	DM 5,77 billion	DM 6,14 billion
- Reserve funds:	DM 0,28 billion	DM 0,31 billion

Members of the Board of Managing Directors:
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WEST GERMAN BANKING X

Deutsche Bank heads field of lead-managers

Eurobond issuing banks

MARY ANN SIEGHART

IN THE world of Eurobonds one German bank stands head and shoulders above the rest. Deutsche Bank is not only the biggest issuer of such bonds in the D-Mark sector but also comes second only to Credit Suisse/First Boston in the league tables for bonds of all currencies.

Figures for 1982 show that, taking into account public issues only, Deutsche Bank launched \$4.57bn compared to \$3.7bn by the other German bank came in the top ten.

So far this year Deutsche Bank has managed to retain its second place but other German banks are creeping up the table. Commerzbank, Dresdner Bank and the Deutsche Landesbank (WestLB) are now in the top ten too.

Deutsche Bank has two advantages: its placing power is thought to be greater than the others' and its lead-management is widely regarded as superior. Five and a half years ago, for these reasons it quite often lead-manages Eurodollars as well as D-Mark bonds.

When the European Economic Community did its huge fund-raising operation in June on behalf of France, for instance, Deutsche was chosen to lead the \$350m Eurodollar bond.

Not all is rosy at Deutsche

Bank, however. It is thought that morale has been low in the new issues department, headed by Karl Miesel, a director of the bank. Rumour has it that those in the department thought their importance was not appreciated enough by top management and that, possibly, they were badly paid compared with other bankers in similar positions.

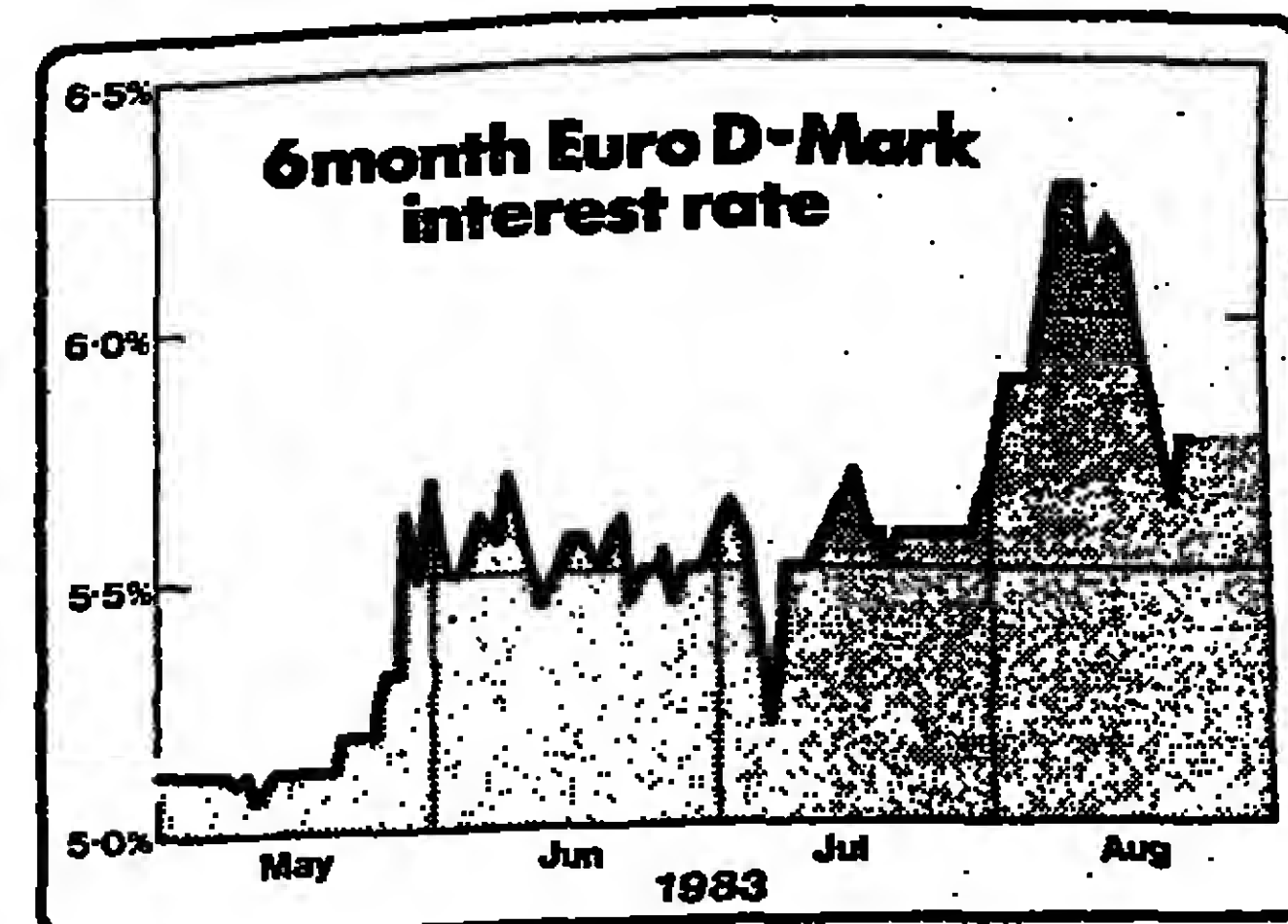
Earlier this year Friedrich Hoyos, who worked under Miesel on the syndication side, resigned "for health reasons." It was claimed at the time that he was to return after about six months but market sources suggest this is unlikely.

Next in the new issue hierarchy come Commerzbank and Dresdner Bank. So far this year Commerzbank has led more issues than Dresdner, both deal almost entirely in the D-Mark sector.

Exceptions are the three fund-raising exercises of \$100m each which Commerzbank undertook on its own behalf in the Eurodollar sector in January, March and May of this year. The May bond also carried warrants to buy Commerzbank bearer shares.

Dresdner too led its own dollar deal earlier this year. The \$100m bond, which came out in March, carried an 11 per cent coupon for seven years at par. It had to support the issue so heavily in the market, though, to stop it falling to a heavy discount that it ended up holding more than \$65m of the \$100m itself.

In the new issue calendar for the end of August and beginning of September Commerzbank was scheduled to lead



three of the five issues, with Deutsche Bank running only one.

This does not imply, however, that Deutsche is about to usurp Deutsche in the German market. Two of the deals—for Arab Banking Corporation and Indonesia—are linked by a swap arranged by Commerzbank, which explains its heavier-than-usual lead-management schedule.

In terms of new issue volume WestLB is next on the list. It has led issues for such sovereign borrowers as the Republic of Austria and the Kingdom of Denmark.

But neither has WestLB been free of personnel problems. One of its senior vice-presidents, Peter Ganschietz, joined the Eurobond musical chairs game last December when he left to join Bear

Stearns International in London. With him went Albrecht Nicolaus, another WestLB senior executive.

These moves came just as WestLB was preparing to implement a major reorganisation resulting from a study by McKinsey and Co., the U.S. management consultants. The reorganisation involved merging two departments of the bank—foreign bond trading and international institutional investment—into one.

Finally, three other banks are involved in new issuing activity in the D-Mark sector, though their exposure is less than that of the top four.

These are DG Bank, Bayerische Vereinsbank and Berliner Handels- und Bank (BHF). All have led fewer than ten issues so far this year.

Market drifts back into doldrums

EUROBONDS denominated in D-marks have had a hard time in the past few months. After a bumper year in 1982 the market is back in the doldrums.

Several factors account for this but most important is the strength of the U.S. dollar and the performance of the U.S. domestic bond market. The two are interlinked. Only at times of a particularly strong D-Mark and correspondingly heavy inflows of foreign capital has the "decoupling" of the markets been possible.

With a strong or strengthening dollar, funds tend to flow out of Germany and into the U.S., especially when interest rate differentials work in favour of dollar-denominated investments, as is currently the case.

Between June and August, the "benchmark" long Treasury bond in the U.S. fell an astonishing 14 points, bringing the D-Mark market down with it. At the same time the U.S. dollar rose from just over DM 2.50 to more than DM 2.70. These two influences combined to depress the market and raise yields.

There have been other problems. Since the beginning of the year new issue managers in Germany have noticed an out-

flow increase in prices of around 3 per cent. If inflation remains under control, the Bundesbank should be willing to keep its Lombard rate low.

However, there have been ominous signs of rises in the money supply outside the target

range, which may cause the Bundesbank to tighten monetary conditions.

While the dollar remains strong, however, the performance of the German Eurobond market is really in the hands of New York. If the U.S. Treasury

market rallies, so should the D-Mark sector. Meanwhile, German bankers will at least be relieved to see investors returning from their summer holidays. Some complained in August that retail business had come to a virtual standstill.

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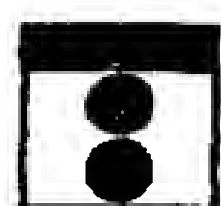
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